Doing Business In Korea
A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Korea

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Market Overview Return to top

Korea is the 13th largest economy in the world and is an outstanding trading partner for the United States. With its high-tech industry, a sophisticated consumer market, and a long history of successful trade with the United States, Korea is an excellent market for U.S. companies to enter or expand their Asian presence. The United States and Korea concluded negotiations for a Free Trade Agreement in 2007, which will remove 95% of all tariffs and establish a framework for a more transparent and robust commercial environment that would increase an already strong bilateral relationship by more than USD 20 billion.

In 2007, the U.S. exported USD 34.7 billion in goods and services, making Korea the seventh largest export market for the United States in the world. As a center for high technology, 36% of U.S. exports to Korea are categorized as "advanced technology products." Though our trade relationship is based on high technology, U.S.-Korean trade is also diversified and represents a broad range of consumer and agricultural products.

U.S.-Korean trade is also diversified with respect to trade from all points within the United States. Twenty-nine U.S. States record Korea as one of their top ten trading partners and nine states experienced export growth in 2007 of USD 100 million more over the previous year. Last year total U.S. exports grew by nearly USD 3 billion and significant growth is anticipated upon ratification of the Korea-U.S. Free Trade Agreement (KORUS FTA)—a trade agreement that Secretary of Commerce Carlos Gutierrez noted as the most significant trade agreement for the United States in 15 years.

For the most current summary on the economic and trade statistics on Korea, please click on the following link:

http://www.buyusa.gov/korea/en/econstatsonkorea.html

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The negotiation of the Korea-U.S. Free Trade Agreement and the eventual ratification of the largest trade agreement in fifteen years, will lead to a significant change in the market climate in Korea and the United States. The FTA will bring about stronger IPR protections, greater transparency in procurement and contracting processes, closer harmonization and acceptance of standards, and stronger trade facilitation.

Onerous and unique testing requirements for a full range of manufactured products, a less than transparent regulatory environment, and significant market pressures for price reductions and discounting continue to affect U.S. businesses. The Free Trade

Agreement would significantly improve market conditions, and by some estimates, provide a stimulus to U.S. exports and the increase of sales by as much as 50%.

U.S. exporters of agricultural commodities continue to also face market challenges. Please see the latest "Exporter Guide" prepared by the Foreign Agricultural Service's Agricultural Trade Office in Seoul for updated information on this topic.

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- U.S. companies will find excellent niche markets for their goods and services across virtually every sector.

- Best Prospects for U.S. exports are in the following sectors:

  - Automotive Parts and Accessories
  - Broadcasting Services and Equipment
  - CNC Machine Tools
  - Computer Software
  - Cosmetics
  - Defense Industry Equipment
  - Drugs and Pharmaceuticals
  - Education and Training Services
  - Medical Equipment and Devices
  - Pollution Control Equipment
  - Security Services and Products
  - Specialty Chemicals
  - Travel & Tourism
  - Wireless Broadband Equipment and Services.

- The U.S.-Korea Free Trade Agreement (KORUS-FTA), currently under negotiation, aims at the removal of trade and investment barriers thereby easing American business access to the Korean market. More information is available from the office of the United States Trade Representative.

- Korea is a highly advanced, tech-oriented economy that can utilize and generate significant demand for state of the art technologies.

- Korea has several mega-projects underway aimed at establishing the country as an international business center for North-East Asia, as well as a major financial and logistics hub.

- Korean fascination with the “American Lifestyle” and related Americana, continues to draw interest and attention among Korean consumers. See CS Korea for more information.

- Specific opportunities are described in greater detail in Chapter 4 (Leading Sectors for U.S. Export and Investment).

Market Entry Strategy

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- Local representation is essential for the success of American firms in the Korean market.

- The most common means of establishing a presence in Korea include: retaining a manufacturers representative or stocking distributor, naming a registered trading company as an agent or establishing a branch sales office.

- See the latest "Exporter Guide" prepared by the Foreign Agricultural Service's Agricultural Trade Office in Seoul for updated information on this topic.

- Business relationships are built on personal ties. Companies should visit Korea to cultivate contacts and to better understand business conditions.

- CS Korea can help U.S. companies activate the right connections in Korea through a wide range of marketing services which include identifying and arranging contact with potential buyers, distributors and importers. For more information, please visit CS Korea's website: (http://www.buyusa.gov/korea/en/ourservices.html) to see the menu of CS Korea services for U.S. companies.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment in Korea, please click on the link below to the U.S. Department of State Background Notes.

http://www.state.gov/r/pa/ei/bgn/2800.htm

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Using an Agent or Distributor

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The most common means of representation are: 1) appointing a registered commissioned agent (commonly known as an “offer agent” in Korea) on an exclusive or non-exclusive basis, 2) naming a registered trading company as a manufacturers representative or agent, or 3) establishing a branch sales office managed by home office personnel with Korean staff.

Any businessperson registered with the Korean government can import goods in his/her own name. Appointing a registered trading company (rather than an "offer agent") as an agent has its advantages because these agents can manage all of the import documentation and imports for their own account. Registered trading companies tend to be larger firms that split their businesses between exports and imports. However, these larger firms may be less attentive to building the U.S. supplier's business, placing a higher emphasis on diversifying their portfolio of products from different countries. Similarly, while the larger general trading companies may be influential and well known in the market, they also may not devote as much attention to a single product as do smaller firms.

To find a local representative, a good place to begin is with the International Partner Search (IPS) offered by the U.S. Export Assistance Centers (USEAC) located throughout the United States and by the Commercial Service Korea (CS Korea). CS Korea’s industry specialists utilizing their network of industry contacts and trade associations can identify pre-screened partners for the U.S. client. The IPS provides the U.S. client an annotated list of three to five potential, qualified representatives. Given time and resource abilities, the preferred alternative is the Gold Key Service (GKS), whereby the U.S. client is in country to meet face-to-face with prospective candidates.

The GKS is a very successful program providing full-service support that can often includes briefings, translation and transportation (fee based).

CS Korea strongly recommends that U.S. companies seek legal counsel prior to signing a contract. Most experts also recommend hiring a local attorney prior to making major business decisions with Korean companies. A final recommendation is that any distribution or agency contract includes a termination clause. Otherwise, Korean Commercial Arbitration bodies may specify the terms for termination, including compensation claims against the principal. A mutually signed contract between a supplier and an agent/distributor with termination provisions would take precedence and avoid placing the U.S. company at risk.

U.S. companies should also seek legal counsel with regard to protecting their intellectual property. Trademark and patent registration (if applicable) with the Korea Intellectual Property Office (KIPO) is the minimum safeguard for your intellectual property rights. U.S. companies are advised to seek the services of a local attorney to directly register their trademarks and/or patents in their own names. In order to have control over IPR, registration must be done in the U.S. company's name and not the Korean agent's name. Under Korean law, applications must be done in Korean and submitted to KIPO.

To view a list of useful contacts for agents or distributors, go to the link below.
http://www.buyusa.gov/korea/en/agentscontacts.html

Establishing an Office Return to top

Most foreign companies in Seoul are located in the following four well-known districts: 1) Kangnam -- the expensive, bustling, new city center south of the Han River where one can find the World Trade Center complex and the American Chamber of Commerce in Korea; 2) City Hall -- the historic CBD area where the U.S. Embassy and a few Korean ministries are located; 3) Yoido -- or "Manhattan Island," which is adjacent to the Han River, where many financial firms and the National Assembly can be found; and 4) Mapo District – which is halfway between Yoido and City Hall. While heavy urban traffic is an ongoing source of frustration and delay, Seoul has an excellent public transportation system that allows foreign investors to consider various locales for their Korean offices.

The following section provides some basic guidelines on how to set up an office in Korea. In addition, a list of real estate consultancy, taxation and human resource search services in Korea are provided.

Step 1: Assess Your Company's Commitment to Establishing a Presence in Korea

Potential investors can take advantage of the many services offered by Invest KOREA, the primary investment promotion agency for Korea. Invest Korea is an arm of the Korea Trade-Investment Promotion Agency (KOTRA), a government-sponsored non-profit organization. The operation is staffed by KOTRA personnel and complimented by officials from relevant government ministries and specialists from the private sector in areas such as law and accounting.

Invest KOREA provides assistance in the following areas:

- Identify the necessary administrative procedures.

- Consult on forms of investment, including M&A, joint ventures and real estate acquisition.

- Provide legal and taxation advice

Invest KOREA also provides investment planning, ongoing support and follow-up support. Invest Korea also maintains an Ombudsman ready to address foreign investors' grievances.

Step 2: Receive Authorization to Proceed with an Investment

Foreign investment projects require notification to the Ministry of Commerce, Industry, & Energy (MOCIE) or its delegated authority – the head office of a major Korean commercial bank or Invest Korea. (A list of major banks in Korea can be found at www.buyusa.gov/korea/en/bankcontacts.html.) Investment notification in liberalized sectors can be handled through banks, however other sectors (see Chapter on Investments, pg. 88) require greater review or documentation.

Step 3: Identify an Office Site

Companies unfamiliar with Korean real estate should consult reputable real estate agents or a real estate consulting firm, especially one experienced in dealing with foreign firms. A list of select such agents can be found at: http://www.buyusa.gov/korea/en/realestatecontacts.html#_section1.

While office space may be easing in Seoul's Central Business District (CBD), given the high demand for land in Seoul, rental rates are high even by U.S. and Asian standards. A recent survey indicated that the average monthly rent in the CBD was USD 75 per pyong (equal to 3.3 square meters) with rents in the popular Gangnam District even higher. Experts expect rents to rise 4% over the next year. These rates are inclusive of maintenance fees and are based on gross floor area, which include common areas.

In addition to monthly rent, another expense is a deposit payment (or "key money"), a one-time charge refundable upon termination of the lease. Nearly all Korean landlords require key money, which ranges from USD 3,000 to USD 6,000 per pyong. There are various combinations of monthly rental fees and key money deposits, and the price per pyong varies based on the negotiated terms. Office parking, another scarce commodity in Seoul, is usually available for a monthly fee.

Under the Foreign Land Acquisition Law foreigners are allowed to purchase land regardless of size or purpose. Local zoning laws do regulate categories of activity permitted, and should be investigated prior to making final investment decisions.

Step 4: Register with the Nearest Tax Office

Investors should register with the nearest tax office in their local jurisdiction for tax reporting purposes. Given the complexity of Korean tax laws and the potential for misunderstanding provisions, companies should consider hiring a local accounting firm to file taxes. A list of local accounting firms can be found at: http://www.buyusa.gov/korea/en/realestatecontacts.html#_section2.

Step 5: Seek Qualified Employees

Local Koreans are attracted to U.S. firms given salary rates, prestige, opportunities for travel, the ability to use and learn English and the possibility to transfer to the company's home office or another foreign branch office.

Korea has a large pool of conscientious and highly educated workers. Female employees are especially strong candidates given the prevalence of traditional cultural attitudes in many Korean companies.

Whether seeking to hire local or foreign staff, U.S. companies should consult an employment agency in Korea. Click here to view a list of employment agencies: http://www.buyusa.gov/korea/en/realestatecontacts.html#_section3

To view the list of real estate consultants, accounting firms and human resource agencies, go to the link below.
http://www.buyusa.gov/korea/en/realestatecontacts.html.

OTHER FORMS OF LOCAL REPRESENTATION

Subsidiary: A subsidiary of a foreign company is established as a local company, and therefore has often a closer relationship with the local business community. This may afford a subsidiary a better position to run its business and possibly allow the firm to tap into investment incentives offered by Korea. A subsidiary is eligible to receive tax incentives provided by the Special Tax Treatment Law (STTCL) in calculation of corporate income tax, if the subsidiary meets the requirements pertaining to the STTCL. No such tax incentives are available to branch or liaison offices.

Branch Office: For companies not have a large enough presence in Korea to establish a subsidiary operation, firms can opt to establish a branch office of the foreign parent. A branch operation is not subject to audits of external auditors in Korea, and thus, a branch's net income is automatically viewed as being included in the headquarters balance sheet. If a company were expected to grow large enough to necessitate the establishment of a subsidiary in Korea at a future date, then it would be more cost effective to establish a subsidiary at the beginning rather than a branch operation.

Liaison Office: A liaison office is established as a branch office with only marketing and support operations. No direct sales could be conducted from a liaison office, meaning that a liaison office would be subject solely to the tax code of the headquarters country and would be the simplest form of conducting business in Korea.

Franchising Return to top

Franchising

Korea's franchising industry has developed rapidly in the last few years, led by fast food restaurants. This growth has expanded to include family restaurants, discount stores, clothing, mailing services, cleaning services, as well as education institutions. U.S. franchisers have met with mixed success in this market.

Franchising has expanded due to a “new generation” of affluent Korean consumers coupled with changes in Korea’s distribution sector that favor new product and marketing concepts. The market value of this industry has reached an estimated USD 64.2 billion, which includes all franchise and sub-franchise fees and royalties. It also consists of product and service revenues, consulting fees, and related product sales, such as coffee equipment at coffee franchise outlets. Of the USD 64.2 billion market, 45 percent (USD 28.9 billion) is accounted for by food services, including fast food services and family restaurants. Other franchise services, such as education, real estate, cleaning services, and mailing services account for 30 percent of this sector, realizing about USD 19.2 billion in sales. The retail sector, such as convenience stores and consumer goods, comprise the remaining 25 percent of this industry (USD 16.0 billion).

Franchising in Korea first developed primarily in the food service market before expanding into other areas. Although the restaurant franchise market is beginning to mature, the service franchise market has just begun to see new concepts, promising possible market opportunities. Korean franchisees are seeking, and prefer to do business with; U.S. franchisers that can offer established brand names to Korean consumers as well as American management skills provided by the U.S. headquarters. The service franchising market includes education, beauty salons, cleaning services, real estate, fitness centers, and other operations. Opportunities exist for franchisers in cosmetics, children’s educational services, and services tied to sports and leisure activities.

Although U.S. franchises are sought after in Korea, several challenges remain. Potential Korean franchisees are often reluctant to pay the relatively high franchising fees and royalties required by U.S. headquarters. Other common franchising requirements, such as minimum facility size and the required number of store openings within a certain period, are often very challenging for Korean franchisers to meet. U.S. franchises should therefore consider flexible franchising arrangements and conduct thorough research on the market and potential locations, as well as the potential master franchisee’s ability to manage its stores.

There are no specific legal requirements for U.S. franchises to operate in the Korean market. However, franchisees need to comply with the Sub-franchisee’s Fair Trade Act, which closely parallels the rules that exist for sub-franchisees in the U.S.

Direct Marketing

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The Korea Online Shopping Association (KOLSA) estimates that by December 31, 2006, there were approximately 112,582 direct marketing firms in Korea. Gross revenues for Korean direct marketing from January to December 2007, including catalog sales and TV and Internet shopping, are as follows:

Catalog sales:	USD	0.56 billion
TV home shopping:	USD	3.59 billion
Internet shopping:	USD	16.68 billion
Total:	USD	20.83 billion

Direct marketing primarily takes the form of catalog sales, TV home shopping, and Internet shopping. Korea also has a large market for door-to-door sales and multi-level marketing.

Door-to-Door Sales

There were 26,248 door-to-door sales firms in Korea as of December 31, 2006. The major door-to-door sales items include home education materials, books, household consumer goods, cosmetics, health foods, sporting goods, and service products, such as insurance and travel counseling. According to the Korea Direct Selling Association (KDSA), the Korean door-to-door sales market for 2006 totaled USD 8.6 billion.

Multi-level Marketing:

Korea's multi-level sales for 2006 reached USD 6.5 billion. As of December 31, 2006, 75 multi-level marketing (MLM) registered companies employed about 3.1 million active distributors. Over the years, the Korean government has derided MLM as an "undesirable or inappropriate business form" for Korea, claiming that it neglects consumer safety, profits "excessively," and threatens the Korean social fabric through its "pyramid schemes." However, MLM's negative image in Korea appears to be changing due to the combined efforts of the Korea Direct Selling Association (KDSA) (whose membership includes almost all U.S. MLM companies doing business in Korea), U.S. firms, CS Korea, the U.S. Trade Representative (USTR), and AmCham Korea. KDSA also is a member of the World Federation of Direct Selling Associations.

In keeping with its deregulation plan, the Korean government reduced restrictions on MLM companies by passing legislation eliminating most existing market barriers against MLM products, such as the obligation to disclose retail prices on the MLM product label. Oversight of the MLM industry rests with the Fair Trade Commission (FTC).

MLM activities by U.S. firms in the cosmetics, cleaning products, and kitchenware sectors have been expanding. In order to gain further successes, however, U.S. multi-level sales firms should promote their products and services appropriately and efficiently by carefully analyzing Korean market trends. Prior knowledge of the market conditions can help prevent unnecessary conflicts with government officials, consumer 'watchdog' groups, or industry groups.

Joint Ventures/Licensing

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The Korean government promotes foreign investment. Government policies have liberalized investment including the lifting of foreign equity ownership limits in selected sectors. President Roh and the Prime Minister's Office have spearheaded efforts to de-regulate and liberalize the economy. Foreign operations have welcomed such moves and encouraged further such steps. With the recent presidential elections and with signing of the Korean-U.S. Free Trade Agreement (KORUS-FTA), greater cooperation and the encouragement of foreign direct investment should increase.

Selecting the appropriate partner is one of the most difficult and critical aspects of establishing a joint venture in Korea. Large Korean conglomerates, known as Chaebols, still exercise considerable influence over the Korean government and financial institutions. The Korean government has recently adopted a policy shift promoting small and medium-sized businesses. With the decreasing influence of Chaebols and greater concern of for anti-monopolistic behavior, joint venturing in Korea has become more diversified. Regardless of the scale of Korean partner, there is a tendency within Korean business culture to maintain local control, regardless of the percentage invested by foreign entities. A U.S. company should take into account such cultural aspects to ensure policies and operations are conducted in the best interest of the U.S. partner.

Management control must be evaluated on three levels: 1) shareholder equity; 2) representation on the board of directors; and 3) active management (representative director and subordinate management*)*. Legally, Korean board meetings require the physical presence of all members as well as a quorum of the directors. Therefore, if a foreign investor intends to exercise day-to-day management, a representative director who resides in Korea must be appointed. Moreover, the representative director will need the support of and access to key functional areas of the company in order to manage in accordance with the foreign investor's wishes. Therefore, the internal organization of a joint venture company as well as key management appointments should be worked out and agreed upon by all involved parties as early as possible.

Compatibility of goals between the Korean and foreign partners is also crucial to the joint venture's success. For example, a foreign investor's primary goal may be to send profit dividends offshore while the Korean counterpart may be more concerned with corporate growth in Korea, particularly by exporting to overseas markets.

Another fundamental issue to be faced is how contractual agreements are treated. To most Koreans, a contract represents the current understanding of a "deal" and is the beginning, rather than an end, to negotiations. If changing circumstances result in omissions or points that no longer accurately reflect the original agreement, then problems will arise. The same is true if the contracting parties change. This type of experience in Korea has led many foreigners to believe that Koreans place less importance on a written contract than Westerners. Though Americans may regard a written contract as legally binding, Koreans may regard the same contract as a "gentlemen's agreement" subject to further negotiations should conditions change.

Contract negotiations with Koreans therefore should be viewed as an on-going process of dialogue having the following objectives: 1) reaching a common understanding of the deal that includes each party's responsibilities; 2) recording the detailed understandings; and, 3) being prepared to modify the terms of the agreement should there be a change in circumstances.

Certain terms of the commercial relationship between joint venture partners, such as technology transfer, raw material supply, marketing, and distribution should be agreed on in detail in the joint venture agreement.

American companies should proceed with caution when they enter into a technology licensing agreements. A company's intellectual property is not necessarily protected and may be vulnerable in the later stages of a business relationship when the survival of the Korean company is dependent on the technology. Although U.S. companies frequently register their patented technology with the Korean Intellectual Property Office (KIPO) before entering into a licensing agreement, successful companies often retain cutting edge technology or key processes. This preventive strategy allows the U.S.

party to control the use of the licensed technology as well as maintain the integrity of the licensing agreement.

Korea's legal procedures can be lengthy, cumbersome and expensive when dealing with contract violations. If at all possible, the best strategy is to prevent possible conflicts. The identification of a viable and trustworthy business partner from the outset is essential, therefore foreign investors should conduct thorough assessments and due diligence when selecting a business partner.

Legal advice is always a solid move. A list of attorneys is available at the end of this chapter. In addition to consulting with an attorney, foreign investors can also consult with the Korean Commercial Arbitration Board (KCAB), which advises foreign companies on contract guidelines. A KCAB counselor can also review contracts and identify areas of potential concern. Information on the KCAB can be found at: http://www.kcab.or.kr

Selling to the Government Return to top

Korea joined the World Trade Organization's Government Procurement Agreement (GPA) on January 1, 1997. The GPA establishes non-discriminatory procedures for the procurement process so that a maximum number of qualified suppliers can fairly compete. In its accession offer, Korea agreed to cover procurements valued over certain "threshold" amounts made by Korean central government agencies, their subordinate entities, Korean provincial and municipal governments, and some two dozen government-invested companies. Korea included procurement of services and construction services. Other features of the GPA for Korea include a prohibition against offsets as a condition for awarding contracts on covered procurements, and a provision requiring procuring entities to allow suppliers to pursue alleged violations of the agreement through GPA-defined bid challenge procedures. The Korean Ministry of Finance & Economy (MOFE) has established an International Contract Dispute Settlement Committee to deal with any challenges by foreign suppliers that Korean procuring entities have not complied with GPA provisions.

The annexes to Korea's accession document specify certain thresholds, below which GPA rules do not apply. Thus, the threshold for Annex 1 (central government) entities for supplies and services is approximately USD 180,000, and for construction services approximately USD 7 million. Thresholds for supplies/services and construction services are considerably higher for Annex 2 (sub-central government entities) and Annex 3 (government-invested corporations). Korea also specified certain categories of purchases that would be exempt from GPA coverage altogether, including procurement related to national security and defense, Korea Telecom's purchases of telecommunications commodity products and network equipment, procurement of satellites, and purchase by the Korea Electric Power Corporation (KEPCO) of certain electrical transmission and distribution equipment.

The Public Procurement Service (PPS) is responsible for the purchase of goods and incidental services required by central and sub-central government entities, government construction contracts and stockpiling raw materials. Not all GPA-covered procurement is handled by the PPS. In the case of Korean government-invested corporations (listed in Annex 3 of Korea's accession agreement), procurement is handled in-house, with these entities following the same GPA rules. Thus, tendering under open, formal procedures are required.

All bidders who wish to participate in PPS tenders for supplying goods and services must register with PPS at least one business day prior to the date of the bid opening. However, foreign bidders are allowed to register with PPS prior to entering into a contract. Failure to register constitutes cause for rejection of the bid. Korea began the Government e-Procurement System (GePS) in October of 2002, a single window for public procurement which digitalized the entire process from order to payment for all public organizations. Bids can be viewed on the PPS website and are valid for at least 45 days after the bid opening date shown on the site. Additionally, as required by the GPA, the procuring entity must publish information on bid opportunities in at least two sources: the daily newspaper Seoul Shinmun (daily newspaper) and the Korean Government Gazette. While these sources are published in the Korean language, any given tender announcement must be accompanied by a summary in English, including the subject matter of the contract, the deadline for submission of tenders, and the address and contact point from which full documents relating to the contracts may be obtained. The tender announcement must contain a statement that the GPA covers the bid.

The negotiated KORUS-FTA has a chapter devoted to government procurement, for further information please visit the website for the Office of the United State Trade Representative at http://www.ustr.gov/.

For more information on the Korean Public Procurement Service, please visit their website at http://www.pps.go.kr/english/

Defense Procurement

The Defense Acquisition Program Administration (DAPA) was launched on January 2, 2006 as a streamlined military procurement agency, replacing the former Defense Procurement Agency (DPA). DAPA is responsible for defense industry equipment purchases. The new agency was formed in order to ensure transparency in the defense procurement process and consolidates eight organizations that were responsible for procurement and the development of technology that were formerly under the purview of the Ministry of National Defense and the separate military services. Though DAPA is a civilian government agency, it works closely with the Minister of Defense, who is a civilian. Please visit the DAPA website at www.dapa.go.kr for further details on the agency.

U.S. defense industry equipment standards are generally accepted in Korea since most Korean defense systems are based on American standards and interoperatability of systems is critical within the defense partnership. Defense equipment is marketed in Korea through the following channels: direct purchase, sales agents, and importers. U.S. manufacturers and suppliers of defense equipment generally use a well-qualified agent in Korea who is familiar with the Korean defense system and who knows key members of the Republic of Korea Air Force (ROKAF), ROK Navy (ROKN), ROK Army, and the Agency for Defense Development (ADD). The selected agent can provide U.S. suppliers with information about the status of bids and procurement plans for defense equipment. Former ROKAF, ROKN, and ROK Army officials have good potential as agents in Korea. Local agents should register and be certified by the DAPA to supply their products and services to the Ministry of National Defense (MND).

For enquiries on the current status of DAPA, please contact Mrs. Myoung Soo Lah at Myoung.Soo.Lah@mail.doc.gov

Distribution and Sales Channels

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Local representation is essential for the success of foreign firms in the Korean market. This is especially true when considering the fact that business relationships in Korea are built upon personal ties and social introductions, and that much of the major third-country competition is only a few flight-hours away. In addition, for sectors that involve any type of government procurement, an entity must be registered with the Korean government in order to bid on procurement projects. Hence, many American firms enter into a consortium with a Korean company or enter into a representative agreement, especially for the purposes of market entry. Finally, the language barrier and established social/ business circles make it extremely difficult to enter the Korean market without a qualified Korean representative.

Distribution methods and the number and functions of intermediaries vary widely by product area and local conditions. The market for most consumer products is concentrated in major cities. The traditional retail distribution network of small family-run stores, stalls in markets, and street vendors is changing rapidly toward large-size discount stores. There are many large retail stores in the major cities, especially Seoul, Daegu, Busan, and the outlying suburbs. Recently, retailing concepts such as Full-Line Discount Stores (FDS) have gained popularity. U.S. based Price Costco has entered the Korean FDS market and are successfully competing against their growing Korean rivals E-mart and Lotte mart. Rapid expansion of these discount chain stores is planned nationwide, with suburban satellite cities attracting the greatest number of stores. Distribution of goods through large discount chains is one of the best ways to market foreign products to Korean consumers.

Parallel imports can legally enter Korea. Parallel imports marginally reduce the value of an exclusive distribution agreement. Many American companies continue to give exclusive contracts, since they have in place territorial limits in neighboring countries that enhance the value of the exclusive in any one country. Likewise, any parallel importer in Korea that is not receiving the support of the OEM, and does not deal in the same volume, cannot be guaranteed a steady source of supply. As noted above, the legitimate exclusive distributor still has considerable advantages in Korea.

Most products enter Korea by air and sea at Incheon and Busan, after which they are transferred to major distribution centers by rail or road. Korea's main distribution centers are Busan, Incheon, Daegu, and Gwangyang.

Selling Factors/Techniques

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Three practices are essential for success in the Korean market: (1) adapting products and procedures to Korean tastes and conditions, (2) regular communication with Korean business partners and customers, and (3) consistently exhibiting a firm commitment to the Korean market over the long run.

In selling to manufacturers, personal contact is important not only because of the value placed on direct discussions and on building long-term relationships but in obtaining a first-hand acquaintance with new processes and equipment. In light of competition offered by Japanese suppliers, who often visit potential and existing customers throughout Korea, U.S. suppliers should consider (1) making visits to Korea to augment the efforts of the local representative; (2) bringing representatives back to the home office periodically to ensure they are fully informed, motivated and up-to-date on the supplier and its offerings; (3) allowing the distributor or agent to appropriately select from the U.S. company's full product line items for sale in the market, (4) holding demonstrations, seminars and exhibitions of products in Korea; (5) increasing the distribution of technical data and descriptive brochures; and (6) improving follow-up of sales leads.

Electronic Commerce

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In 2006, the total amount of E-Commerce transactions in Korea was estimated to have reached approximately USD 400 billion. This figure is projected to grow at an average annual rate of 10 percent over the next five years. In Korea, the B2B, B2G and B2C transactions account for 88.6, 8.2 and 2.3 percent of the E-commerce sector respectively. There are approximately 4,524 B2C cyber shopping malls in Korea with estimated sales of USD 9.0 billion in 2006.

The transaction volume of Korean Electronic Commerce (EC) is forecast to grow rapidly over the next several years. Major factors driving the growth include a nationwide broadband infrastructure with 35 million Internet users from a total population of 48 million, and introduction of Wireless Broadband (WiBro) and 3.5G mobile High Speed Data Packet Access (HSDPA) services through mobile computing and communication devices in 2007. Increased EC transactions will lead to growing demand for E-commerce solutions, a variety of equipment, networking, software, and services, to develop and support E-commerce-related web-sites and transactions. The electronics and metal manufacturing industries that account for nearly 70 percent of total B2B transactions are willing to spend in order to achieve efficient and secure use of EC tools. However, U.S.-based E-Commerce companies need to monitor the Personal Information Protection Act and Ministerial data privacy/SPAM regulations that were enacted in 2007. Although the new regulations are likely to reflect concerns voiced by the public and the industry to the government, it may still be restrictive for E-Commerce firms managing user data globally to some extent.

Trade Promotion and Advertising

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The Commercial Service section of the U.S. Embassy in Korea is the primary US government trade promotion agency. Among the non-USG organizations, the Korea International Trade Association (KITA) is the largest trade association in country. As a member of the World Trade Centers Association (WTCA), KITA explores new trade opportunities for Korea by organizing trade missions and market survey teams to a number of foreign countries on a regular basis. KITA's Trade Service Center also assists potential foreign buyers or sellers. The Center also offers on-the-spot consultation and personalized advisory service regarding trade rules and regulations, export and import procedures, business management, market research, technology development, and taxation. In addition, KITA maintains six overseas branch offices, two of which are based in Washington D.C. and New York.

Seoul maintains the largest trade show venue in Korea, the Convention and Exhibition Center, popularly known as "COEX." Covering 36,027 square meters of exhibition space, COEX is a full-service trade organization offering multi-lingual simultaneous translation, world-class audio-visual equipment, state-of-the-art lighting and sound systems, and up-to-the-minute information services. The Seoul Trade Exhibition Center (SETEC) is also in Seoul and is operated by the Korea Trade- Investment Promotion Agency (KOTRA).

In addition the second largest city in Korea, Busan, located in southeastern part of Korea currently holds national exhibitions. The Busan Exhibition & Convention Center (BEXCO) has a floor space of 26,446 square meters. There is also an outdoor exhibition site that is 13,223 square meters in size.

Advertising

Korea's advertising market is completely open to 100 percent foreign equity participation. Foreign advertising agencies now control more than 50 percent of the Korean advertising market. Today, all the major international agencies are present in Korea.

There are four major broadcast networks (television and radio) in Korea. KBS I and KBS II are owned and operated by the Korean government, while MBC and SBS are independently operated. However, government influence remains, since advertising time on these and other broadcast networks is sold exclusively through the government organization known as the Korea Broadcast Advertising Corporation (KOBACO). Companies must register with this corporation if they intend to advertise. As of 2006, approximately 256 foreign and Korean agencies were registered with this corporation.

Though censorship in advertisement is still practiced in Korea, it is not as strict as it was in the past. The Korea Advertising Review Board (KARB), which consists of advertising and industry associations, currently controls advertising censorship procedures. In addition, the government's Korean Fair Trade Commission is responsible for determining whether an advertisement makes accurate claims.

Several local TV stations have been established in recent years. This development, as well as the advent of cable television in 1995, has expanded advertising's potential reach to Korean audiences. As of December 2006, the Korean cable industry was served by 111 system operators and about 173 program providers offering diverse cable programs such as business news, sports, music, Buddhist programming, shows on the Korean board game "baduk" ("Go"), etc. There are also five shopping channels, including CJ, Hyundai, GS, Lotte, and Nongsusan. Estimated total sales volume for these five shopping channels in 2006 was USD 3.3 billion.

Advertising market opportunities are predicted to show strong growth as more Koreans gain access to electronic media. Cable television in Korea currently has an audience of over 12 million households. Additionally, the government took steps to promote broadcast satellite television in digital format in 2001, with expectations of nationwide coverage by 2010. Korea Digital Broadcasting (KDB), a subsidiary of state-run Korea Telecom, holds the contract for digital broadcasting. In 2007, KDB broadcast 150 satellite channels reaching an estimated 2.1 million households.

Internet advertising also offers significant market growth potential, since the number of computer users will further increase in the coming years. There are currently 15 million Internet using households in Korea, which amounts to about 98 percent of total households in Korea.

Local Fair Authorities

- Convention and Exhibition Center (COEX)
  Tel: 82-2-6000-0114
  Website: www.coex.co.kr

- Busan Exhibition and Convention Center (BEXCO)
  Tel: 82-51-740-7300
  Fax: 82-51-740-7320
  Website: www.bexco.co.kr/eng/index.php

- Seoul Trade Exhibition Center (SETEC)
  Tel: 82-2-2222-3800
  Fax: 82-2-2222-3820
  Website: www.setec.or.kr

- Daegu Exhibition and Convention Center (EXCO Daegu)
  Tel: 82-53-601-5000
  Fax: 82-53-601-5029
  Website: www.excodaegu.com

KITA US Offices

- KITA NY Office
  Tel: 212-421-8804(ext. 26)
  Fax: 212-223-38270
  E-Mail: kitany@kita.net
  Website: http://www.kita.org/kita/kita_index.jsp?siteUrl=usny.html

- KITA Washington Office
  Tel: 917-699-2032, 703-242-5713
  Fax: 703-242-5714
  E-Mail: wayne@kita.net
  Website: http://www.kita.org/kita/kita_index.jsp?siteUrl=usny.html

- Korea Trade Investment Promotion Agency (KOTRA)
  Tel (rep): (82-2) 3460-7114
  Fax (rep): (82-2) 3460-7777
  Website: http://www.kotra.or.kr/

To view the list of major newspaper agencies in Korea, go to the link below.

http://www.buyusa.gov/korea/en/newspapercontacts.html

CS Korea provides the Single Company Promotion service to U.S. firms through which firms can promote their products in Korea. Additionally, the "Featured U.S. Exporters (FUSE)" site provides information on how a company can advertise products on the Commercial Service's worldwide website in various languages for free. Click on "FUSE" for more information.

Pricing Return to top

U.S. goods have a reputation among Korean buyers of having high quality and performance; however, since Korean manufacturers are price-conscious, they often perceive U.S. products to be very expensive. In an export-oriented economy where finished products must meet keen competition in the world market, many Korean manufacturers believe that it is essential to buy the lowest priced raw materials and equipment, even at the expense of quality. Goods from Japan and elsewhere are often considered to be better buys than goods from the U.S. In addition, Korean manufacturers often seek to offset labor wages with low-cost inputs. However, as Korea continues to move toward exporting higher-end and manufacturer-branded products, and tries to combat criticism of poor quality control among certain Korean products in recent years, the emphasis manufacturers place on price as a buying factor may be somewhat tempered. Other characteristics in Korean price considerations are the tendency to seek "bundled" prices and to undervalue "software" (engineering and other services components), particularly in the procurement of major systems.

Considering the factors outlined above, U.S. exporters might consider: 1) adapting their products to Korea by marketing basic units, 2) taking into account in their price quotations the likelihood of repeat business for spare parts and auxiliary equipment, and most importantly, 3) emphasizing and marketing the idea that the superior quality of U.S. manufactured input products ultimately results in lower production costs.

Another pricing factor that merits consideration is commissions. The commission rate for using an agent or distributor varies depending on the type of product and the transaction amount. On average, Korean agents require a 10 percent commission, particularly when a transaction is conducted on a spot basis, but this varies for different products. Generally, a 5-7 percent commission applies to product categories such as general machinery, including packaging, construction, and material handling equipment. Meanwhile, more sophisticated products such as medical, laboratory, and scientific analytical instruments usually require a commission of 15-18 percent or more, since these are products for which after-sales service is considered to be very important.

Korea has consumer-protection legislation that requires consumer items be labeled with both the manufacturer's sales price to the retailer and the marked-up retailer's price to the consumer. The mark-up from manufacturer to consumer ranges from 50 percent to 150 percent.

Korea has a 10 percent sales tax that is included in the price of taxable items. There is a 10 percent VAT on services provided in Korea.

Sales Service/Customer Support

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Sales and after-sales service is generally secondary to product and price considerations. Following the Korean War, at a time when foreign exchange was exceedingly scarce, Korean plant operators learned to rely on their own resources or on the many small machine shops in order to service machinery. This tradition of self-reliance and improvisation is still evident in contemporary Korean business practices. However, with heavy competition among foreign suppliers in the Korean market, servicing has become an increasingly important component of selling.

Private traders and offer agents often hire in-house engineers to install equipment. For specialized installations, however, the best sources of assistance include resident and offshore foreign engineers in coordination with local engineers, whose services are available on contract.

Japan's geographical proximity to Korea as well as the similarities in business culture between the two countries allow Japan to send teams of specialists to Korea at minimal cost and effort in order to offer skilled advice in installation, maintenance and repair. U.S. firms should consider establishing regional servicing facilities that can effectively service and support equipment sold in Korea. The emphasis given recently by some American firms on the training of personnel, often through U.S.-based programs, has proven beneficial.

Protecting Your Intellectual Property

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Please refer to Chapter 6 (Investment Climate), for further details on the protection of intellectual property rights with regard to patents, copyrights, trademarks and their policy implications. For the purposes of this chapter on how to market U.S. products and services in Korea, however, we have briefly outlined measures U.S. firms should take to protect their Intellectual Property Rights (IPR) in Korea.

Register your Intellectual Property

Registration is particularly important when it comes to protecting your trademarks, designs and patents in Korea. Unlike the trademark registration system in the United States, which is based on “first commercial use” or “first intent to use,” the trademark, design and patent registration system in Korea is based on “first-to-file,” or more accurately, first to successfully register with the Korea Intellectual Property Office (KIPO). If a U.S. company is considering entering the Korean market it is highly advisable that the U.S. company register their trademark first before an unauthorized party has the opportunity to register the trademark. The company will save much time, energy, resources and legal fees in the long run.

Since registration of trademarks is in Korean, in order to successfully register a trademark, the U.S. company should hire a qualified local attorney who is familiar with registration procedures. To have maximum effect, a company should be prepared to register its trademark in every applicable product class category for the product(s). Protection is not generally provided under the Korean legal system if the company has not registered in the relevant product class category. Should the trademark registration remain unchallenged, the entire registration process should take eleven months from the date you submit your application form to KIPO.

During the course of trademark registration, information on pending applications initially becomes available in publications of the Korea Invention and Patent Association two to three months after the initial application. Official announcements of pending applications are published for comment by KIPO in its Official Gazette. Generally, U.S. companies hire a local attorney and ask the firm to look into the status of the company's trademark in Korea. Sometimes, the U.S. company discovers from the aforementioned publications that an unauthorized party has already filed the trademark and is awaiting registration. In this case the company is eligible to file an Opposition Action Petition within a 30-day period of official publication. In an opposition action petition, the company states their case as to why the unauthorized party's application should be rejected during the course of initial review. After reviewing the opposition action petition, KIPO can decide either to proceed with registering the unauthorized trademark application or to reject the trademark application, clearing the path for the U.S. company to register at a later date.

At a minimum, American companies that plan to enter the Korean market in the future should monitor KIPO public notices to ensure that their trademark has not been registered. Since the public notices are only in Korean, if the U.S. company cannot monitor the situation from America, the company should consider hiring someone in Korea, such as an attorney, who can.

The 1998 Trademark Act provides KIPO with grounds to reject third-party applications of the same or similar trademarks if KIPO is convinced that the registration is done in "bad faith." As capable as trademark examiners can be, some trademark registrations by unauthorized registrants have slipped through the cracks and have been successfully registered. Registration by an unauthorized party can include "predatory registration" (i.e., knowing that the mark belongs to another company, the unauthorized applicant registers the mark, with no intention of using it but rather to sell the trademark registration when the legitimate trademark owner tries to enter the Korean market).

In such cases, because the Korean legal system is based on "first to file", and because the unauthorized registrant successfully registered with KIPO, the unauthorized registrant is the legal owner of the trademark in Korea—even if it is the U.S. company's mark and the American company has been using it in international business for several years. <u>Provided that the mark was not used commercially by the successful but unauthorized registrant in Korea for the previous three years, the U.S. company can file a Cancellation Action petition to cancel the existing mark.</u> If the cancellation action is successful and there is no appeal, the U.S. company can immediately file to register the trademark with KIPO, thereby reclaiming the trademark.

The most contentious scenario takes place when an unauthorized trademark application has been successfully registered with KIPO, and the party is actually using the U.S. company's trademark commercially in Korea. In this case, the legal remedy available is an Invalidation Action. An invalidation action petition can be filed anytime during the course of the 10-year life of a trademark, provided the unauthorized registrant is actually using the trademark. The American company's petition should outline why the unauthorized trademark owner's registration should be voided (invalidated), i.e. that the

American company is the legitimate and original trademark owner, and that consumers know the trademark to be associated with the U.S. company.

If the company follows either the invalidation or cancellation action routes, the burden of proof lies with the petitioner. U.S. companies should be prepared to provide documentation showing commercial use (include samples of the product and illustrating the uniqueness of the trademark and product), to substantiate financial investment in advertisements (include all examples of actual advertisements or promotional materials that appeared in the media), even to provide results of any surveys that show that the brand name is publicly recognized in Korea and that the company is the source of the legitimate goods promoting the trademark.

Provided that the company and their attorneys put forth a convincing argument with meticulously documented details as to why the company is the legitimate trademark owner, the company has a good chance of winning the case before the KIPO Trial Board. However that may not be the final hurdle since there is an appeals process for cancellation and invalidation actions from the KIPO Tribunal Board to the Korean Patent Court and finally to the Supreme Court of Korea. The rule of thumb for a trial date is first come, first served --- petitions are filed by date with the trial dates occurring in order of the date of petition. A final judgment on a petition can be a long process due to the length of time it takes to go from the KIPO Tribunal Board, via the Korean Patent Court, to the Korean Supreme Court. Four years or more is not unheard of for a final decision using the legal process and even then there is no guarantee that the U.S. company will be successful. Regardless of the approach taken, good legal counsel is essential.

Unlike successful cancellation actions where the company may file for the trademark immediately with KIPO, successful invalidation actions have a one-year moratorium from the invalidation action date before a U.S. company can officially register a trademark. However, US companies can seek enforcement measures from the date of invalidation of the Korean registration.

"Use" your trademark

Foreign companies that have registered their trademarks in Korea, to protect their trademark, and left it unused within Korea have been known to lose their trademark rights to Korean registrants on the grounds of lack of use. "Use", in this case, includes not only sale of a product or service with the trademarks but also advertisements on TV, magazines, newspapers, Internet and so on. Please consult with your legal counsel on how you can show sufficient use of your trademark should your trademark be challenged.

How and Where to Register Your Intellectual Property in Korea

Both the United States and Korea are members of the Madrid Protocol, which allows companies from the member nations to apply for trademark ownership in several member nation countries simultaneously. In Korea, a U.S. company can register their trademark and patents with the Korea Industrial Property Office (KIPO). Foreign applicants are required to retain a licensed local attorney in order to prepare applications in Korean and to conduct necessary follow-up correspondence locally. Under international law, copyrights do not have to be registered in order to be protected; however, similar to the U.S., registration is also possible in Korea with the Ministry of

Culture and Tourism. Enforcement of legally registered copyrights, trademarks, and patents are under the jurisdiction of the Prosecutor's Office in Korea.

Type of Intellectual Property	Where to Register
Trademark, Patent	Korea Industrial Property Office (KIPO) http://www.kipo.go.kr/
Copyright	Ministry of Culture and Tourism (MCT) http://www.mct.go.kr/ Copyright Registration Division: Copyright Commission www.copyright.or.kr

When registering a copyright, trademark, or patent, US companies should maintain control of their intellectual property (e.g., registering in the U.S. company's name) even if they request their Korean agent to do the processing. This control is particularly important should the relationship dissolve. In previous cases where the Korean agent maintained control of the intellectual property, long, costly legal battles ensued in order for the U.S. company to register their trademark.

Need for a Local Attorney

A large number of Korean law firms focus on international business. Most experts advise engaging a local attorney before making major business decisions in dealing with Korean companies. In addition to advice on structuring deals or arranging contracts, Korean law firms are usually well connected into the power structure and have extensive contacts in government ministries.

Although it is important to have legal representation when a business in Korea reaches even a modest level of complexity, it is important to remember two things. First, as a matter of legal culture, Korean lawyers do not see themselves as businessmen and try to avoid intruding on business judgments. It is rare for Korean lawyers to venture far from recitation of applicable statutes. This is one reason why it is a good idea to seek a Korean firm employing foreign legal consultants who tend to provide a proactive, commercial-oriented philosophy. Although major Korean legal firms have extensive and excellent contacts with the Korean bureaucracy, for anyone planning long-term business in Korea, it is useful to establish direct contacts with officials who oversee any given industry.

To learn more about intellectual property laws, enforcement bodies and issues in Korea, visit the IPR toolkit at http://www.buyusa.gov/korea/en/iprtoolkit.html.

For list of major law firms in Korea, go to www.buyusa.gov/korea/en/lawfirmcontacts.html.

Due Diligence Return to top

Local representation is essential for the success of foreign firms in the Korean market. Due diligence is critical, especially when selecting a local partner for joint ventures, licensing, and distribution. A due diligence check on a potential Korean business partner should include an evaluation of the company's financial and operational history, accounting practices, hidden ownership interests, corporate relationships with other Korean companies, and position in the market for the product(s) you are exporting.

CS Korea offers a fee-based service called the International Company Profile, which provides information on potential Korean business partners to help American companies obtain accurate, up-to-date information. The report includes financial information on Korean companies from D&B Korea Co., Ltd. D&B Korea Co., Ltd. and Kroll International, Inc. (http://www.kroll.com/) are also providers of due diligence services.

Local Professional Services

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Korea has a highly developed economy with a full range of professional services. For more information on professional services, please see the links below:

List of agents/distributors: http://www.buyusa.gov/korea/en/agentscontacts.html

List of law firms: http://www.buyusa.gov/korea/en/lawfirmcontacts.html

List of major banks: http://www.buyusa.gov/korea/en/bankcontacts.html

List of major real estate and real estate consultancy firms, accounting companies and human resources firms in Korea:
http://www.buyusa.gov/korea/en/realestatecontacts.html

List of major newspaper contacts:
http://www.buyusa.gov/korea/en/newspapercontacts.html

The U.S. Commercial Service, Korea, provides the Single Company Promotion service to U.S. firms. Additionally, the "Featured U.S. Exporters (FUSE)" site provide information on how you can advertise your products on our worldwide website in various languages for a small fee. Click on "FUSE" for more information.

Web Resources

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Busan Exhibition and Convention Center (BEXCO):
http://www.bexco.co.kr/

Contacts for Accounting Firms in Korea:
http://www.buyusa.gov/korea/en/realestatecontacts.html#_section2

Contacts for Agents or Distributors in Korea:
http://www.buyusa.gov/korea/en/agentscontacts.html

Contacts for Employment Agencies in Korea:
http://www.buyusa.gov/korea/en/realestatecontacts.html#_section3

Contacts for Major Banks in Korea:
www.buyusa.gov/korea/en/bankcontacts.html

Contacts for Major Law Firms in Korea:

http://www.buyusa.gov/korea/en/lawfirmcontacts.html

Contacts for Major Newspaper Agencies in Korea:
http://www.buyusa.gov/korea/en/newspapercontacts.html

Contacts for Real Estate Consultants, Accounting Firms and Human Resource Agencies:
http://www.buyusa.gov/korea/en/realestatecontacts.html

Convention and Exhibition Center (COEX):
http://www.coex.co.kr/

Daegu Exhibition and Convention Center (EXCO Daegu):
http://www.excodaegu.com/

Defense Procurement Agency (DPA):
http://www.dpa.mil.kr/

Dun and Bradstreet:
http://www.dnbkorea.com

Featured U.S. Exporters (FUSE)
http://www.buyusa.gov/home/fuse.html

Government e-Procurement Service (GePS):
http://www.g2b.go.kr/

International Company Profile:
http://www.buyusa.gov/korea/en/icp.html

Invest KOREA:
http://www.investkorea.org/

KITA NY Office:
http://www.kita.org/kita/kita_index.jsp?siteUrl=usny.html

KITA Washington Office:
http://www.kita.org/kita/kita_index.jsp?siteUrl=usny.html

Korea Broadcast Advertising Corporation (KOBACO):
http://www.kobaco.co.kr/eng/index.asp

Korean Commercial Arbitration Board:
http://www.kcab.or.kr

Korea Importer's Association (KOIMA)
http://www.koima.or.kr/

Korea Intellectual Property Office (KIPO):
http://www.kipo.go.kr

Korea's Main Distribution Centers:
Busan: http://www.portbusan.or.kr
Daegu: http://english.daegu.go.kr
Gwangyang: http://www.gwangyang.go.kr/
Incheon: http://www.incheon.go.kr

Korea Online Shopping Association
http://www.kolsa.or.kr

Korea Trade Investment Promotion Agency (KOTRA):
http://english.kotra.or.kr/wps/portal/dken

Kroll Korea:
http://www.krollworldwide.com/

Public Procurement Service (PPS):
http://www.pps.go.kr/english/

Seoul Trade Exhibition Center (SETEC)
www.setec.or.kr

Single Company Promotion: A service provided by the U.S. Commercial Service for U.S. firms wishing to enter the Korean market.

World Federation of Direct Selling Associations
http://www.wfdsa.org/

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Chapter 4: Leading Sectors for U.S. Export and Investment

Commercial Sectors

The following Best Prospects for U.S. Exports are arranged alphabetically.

- Automotive Parts and Accessories
- Broadcasting Service and Equipment
- CNC Machine Tools
- Computer Software
- Cosmetics
- Defense Industry Equipment
- Drugs and Pharmaceuticals
- Education and Training Services
- Medical Equipment and Devices
- Pollution Control Equipment
- Security Services and Products
- Specialty Chemicals
- Travel and Tourism
- Wireless Broadband Equipment and Services

Agricultural Sector

- Agricultural Sector

Defense Industry Equipment

ITA CODE: DFN

Overview

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	2005	2006	2007 (estimated)
Total Market Size	4,468	4,900	5,292
Total Local Production	4,100	4,200	4,536
Total Exports	262	300	324
Total Imports	630	1,000	1,080

(Unit: USD million)
[Source: Ministry of National Defense (MND), Korea Defense Industry Association (KDIA), Joint US Military Affairs Group-Korea (JUSMAG-K)]
[USD 1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

The Republic of Korea (ROK) is currently modernizing the armed forces to a level commensurate with the country's economic strength. The ROK is in need of significant materiel modernization and replacements that will involve major investments. Although U.S. defense companies have been very successful in selling their products to Korea, European and Middle East competitors who are becoming increasingly prominent in the market could influence future sales. Nevertheless, Korea should continue to be a good market for U.S. defense companies especially when competitive products and services are offered.

The 2006-2010 mid-term plan was developed in 2005 with an emphasis on securing a self-reliant national defense. The Korean military plans to obtain an independent intelligence gathering capability focusing on the peninsula and the surrounding area by securing Airborne Early Warning (AWACS) aircraft, high-altitude Unmanned Aerial Vehicles (UAV), and long-range intelligence equipment by 2010. The Ministry of National Defense (MND) plans to steadily raise defense spending to 3.5 percent of Gross Domestic Product (GDP), from the current 2.85 percent level, in the next few years. Economic constraints, steadily rising O&M costs, and payment schedules for past acquisitions complicate force development. Korea plans to invest about USD 54 billion in force improvement programs 2006 - 2010.

Recently interoperability has become less of a factor when purchasing equipment due to Korea's desire to increase competition and diversify sources of supply. It is also expected that there will continue to be tension between indigenous development and cost-effective acquisition. The MND is trying to solve this dilemma by demanding a high degree of technology transfer and offsets for projects. Currently the most important elements for purchasing decisions by MND are price, technology transfer and offsets. U.S. industry must closely follow any and all developments in programs and be prepared to move quickly if the need arises. The Korean government has made it clear that they will procure leading edge technologies to defend Korea, which presents opportunities for the U.S. defense industry.

South Korea plans to increase defense spending to USD 28.9 billion in 2008, which is a 9% increase vis-à-vis the year before. The defense budget will account for over 15% of overall government spending in Korea. The ROK has signaled that it will increase operating expenditures to USD 20.5 billion, while setting spending of USD 8.6 billion for expenditures leading to improvements in defense capabilities. The Defense Ministry has identified key projects in the 2008 budget including the purchase or development of unmanned aerial vehicles, helicopters, infantry fighting vehicles and other ongoing projects like AEW&C, SAM-X surface to air missile and the Korean Multipurpose Helicopter.

Korean Air Force

Just like the Army and Navy, the Korean armed forces are gearing up to command its defense by 2012. With respect to the Air Force, this includes current negotiations to add an additional 20 F-15K fighters to the air fleet to replace ageing F-4 and F-5 legacy aircraft. The signing in 2006 for the purchase of Boeing E-737 AEW&C (AWAC) aircraft and development and production of up to 800 Korean Aerospace Industry T-50 jet fighter trainers in cooperation with Lockheed Martin signals Koreas intention to 1) increase air power and 2) develop a more indigenous aerospace industry for the local production of fixed wing, rotor wing, and UAV assets.

The Republic of Korea continues to negotiate the potential sale of its KAI T-50 trainer to the United Arab Emirates, and during the recently concluded Dubai Air Show, the UAE announced that the BAE Hawk was no longer being considered for the contract and that Alenia (Italy/Brazil/Switzerland) and KAI (Korea/USA) were the remaining contender for the contract.

Korean Navy

The Republic of Korea Navy plans to move to a full blue-water role by 2012, with a full range of vessels including transports, frigates, corvettes and submarine systems. Vessels like the Dokdo-class transport ship (built by Hanjin Heavy Industries) would be able to carry 700 marines, ten helos, and two LCACs. Likewise Hyundai is looking to build a 7,000 tonne destroyer with the Aegis combat system. With expenditures increasing for the Navy and Air Force, and Korea assuming its role of taking full command of its defense, the market for defense systems is improving.

Best Products/Services Return to top

- Military Aerospace (fighters)
- Avionics
- C4ISR
- Missile technology
- Maritime Defense Electronics and Systems

Opportunities Return to top

Airborne Mine-sweeping Counter Measures (AMCM; est. $500 million)
The ROKN plans to procure eight MH-60 class mine warfare helicopters by 2011.

Next Generation Frigates (FFX)
The ROKN plans to deploy a total of nine 2,500 ton class frigates by 2018. The delivery of one ship per year will begin from 2010-2018.

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Trade Shows

Korea Aerospace & Defense Exhibition (Seoul Air Show 2009)
Bi-annual: dates to be determined

Naval & Defense 2009
Bi-annual: dates to be determined

Key Contacts

Ministry of National Defense (MND)
www.mnd.go.kr

Defense Acquisition Program Agency

Local Contact

(Mrs.) Myoung Soo Lah
Commercial Specialist
Commercial Service Korea
U.S. Embassy
32 Sejong-ro Jongro-gu
Seoul 110-710 Korea
Tel: 82-2-397-4516
Fax: 82-2-739-1628
Email: myoung.soo.lah@mail.doc.gov
Website: www.buyusa.gov/korea

Security Services and Products

ITA CODE: SEC

Overview

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	2005	2006	2007 (estimated)
Total Market Size	1,964	2,134	2,176
Total Local Production	838	9,112	9,294
Total Exports	N/A	N/A	N/A
Total Imports	1,069	1,158	1,181

** Demand for building security in 2007 is status-quo due to limited demand from new residential/commercial buildings while demand from existing residential/commercial and government buildings remains same as 2006.*

(Unit: USD million)

(Source: The above statistics are unofficial estimates by CS Korea. The total market size includes services and equipment. Statistics for local production and import data do not include security services.)

[USD 1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

In 2006, the overall size of Korea's security industry, including equipment and services, exceeded USD 2.1 billion. Provision of security guard services continued to account for over 50 percent of the total security market followed by leased and installed security equipment, which accounted for 25 percent of the market. Security devices took a 15 percent share. In 2006, the size of the security industry market increased by around 10%. In that year, airports and ports started to replace existing security systems while large private companies showed increasing interest in installing integrated security systems. The security industry is projected to grow by an average of 10 percent per year for the next few years.

Total imports of security equipment and related products in 2006 were estimated at USD1.2 billion. U.S. firms are the major suppliers of airport and port security equipment, which includes X-ray scanning systems, computerized tomography X-rays, magnetometers, hand-held detectors and explosive trace detectors. Total imports of airport and port security equipment in 2006 were estimated at USD 617.5 million. U.S. imports accounted for 25 percent at USD 154 million. CS Korea expects that U.S. imports will maintain a steady market share in Korea's import security industry for the foreseeable future.

Best Products/Services

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- Detection units for passenger baggage and cargo screening and their parts & components
- Drug/explosive detect/analyzinb systems
- Explosive detection security systems integration for ports and airports
- Container Screening systems

Opportunities

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The local security equipment manufacturing industry's technology level lags behind that of the major NATO member countries, especially in the area of providing high-end security solutions and C4ISR infrastructure to meet end-user requirements. As a result, the industry's major Korean players, who are also systems integrators, are seeking opportunities to develop top-notch technology in cooperation with foreign companies.

Government agencies are end-users for integrated systems for security devices and command and control infrastructure. In particular, airports, ports, and customs offices are seeking advanced integrated security systems devices. U.S. companies have a larger share of the Korean market for X-ray detection systems and container inspection systems than European and Japanese firms. U.S. systems, certified by the Transportation Security Administration (TSA) and the Federal Aviation Administration (FAA), should have growing market opportunities in Korea due to confidence in the quality of systems with these certifications. U.S. companies are encouraged to monitor government procurement plans and establish consortia with prime Korean contractors in systems integration.

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Trade Shows

SecuWorld 2008
June 25-27, 2008
http://www.secuexpo.com/

Korea International Safety & Security Exhibition
June 30-July 3, 2008
www.KISS21C.org

Key Contacts

Civil Aviation Safety Authority
www.casa.go.kr

Incheon International Airport Corporation (IIAC)
www.airport.or.kr

Korea Fire Equipment Inspection Corporation
http://www.kfi.or.kr/

Korea Occupational Safety & Health Agency
www.kosha.net

Civil Defense and Disaster Management Bureau
Ministry of Government Administration and Home Affairs
http://www.mogaha.go.kr

Fire Administration Bureau
Ministry of Government Administration and Home Affairs
http://www.mogaha.go.kr

Anti Terror Division
National Police Agency
http://www.npa.go.kr/eng/index.jsp

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Specialty Chemicals

ITA CODE: ICH

Overview

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	2004	2005	2006 (estimated)
Total Market Size	25,093	25,775	27,292
Total Local Production	20,139	20,563	22,000
Total Exports	2,934	3,042	3,612
Total Imports	7,889	8,254	8,903

(Unit: USD million)
(Source: Korea Specialty Chemical Industry Association)
[USD 1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

Korean demand for high quality, sophisticated chemical products and associated substances for the development of new products is steadily increasing. In 2006, the total market size of Korea's specialty chemicals was USD 33.4 billion, a 6 percent increase over 2005. Total imports of specialty chemicals increased by 18 percent in 2006, during which time imports from the U.S. increased by 12 percent to reach 1.57 billion. The U.S. has a 15 percent share of the specialty chemical import market.

The specialty chemical industry is projected to grow by seven percent over the next few years and is expected to result in a nine percent annual increase in demand for specialty chemical imports. In the specialty chemicals area, Korea lacks advanced chemical materials and technology, and has not made significant investments in R&D despite growing demand in the pharmaceutical, cosmetic/perfume, photochemical, and paint and ink industry sectors. As a result, Korea continues to heavily depend on imports to meet demand for intermediate raw materials and newly developed chemical products.

Best Products/Services

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- Specialty chemicals for the medical and pharmaceutical industries
- Specialty chemicals for the cosmetics industry

Opportunities

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Market demand continues to grow especially from Korean companies in the medical, pharmaceutical and cosmetic industries. These companies are very interested in using advanced chemical materials to produce new products. The technological level of domestic producers appears to be on par with advanced countries in terms of basic science and technology; consequently, newer technology is also very welcome. Korean government agencies continue to actively pursue alliances with multinational companies in countries with an advanced chemicals industry to secure know-how for the production of high-end medical, pharmaceutical, cosmetics and biochemistry products.

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Trade Show

XpoChem Conference 2008 (Annual)
Date to be determined
www.kscia.or.kr

American Association of Clinical Chemistry
July 27-31 in Washington, DC
http://www.aacc.org/AACC/events/ann_meet/

Key Contact

Ministry of Environment
www.me.go.kr

Ministry of Labor
www.molab.go.kr

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Drugs and Pharmaceuticals

ITA CODE: DRG

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	2005	2006	2007 (estimated)
Total Market Size	10,495	12,359	13,711
***Total Local Production**	9,670	11,102	12,362
****Total Exports**	419	493	562
****Total Imports**	1,244	1,749	1,912
****Imports from the U.S.**	152	225	246

(Unit: USD million)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]
Sources: U.S. Commercial Service Korea, * Korea Pharmaceutical Manufacturers Association (KPMA), ** Korea Pharmaceutical Traders Association (KPTA)

Note:
1) Local production includes production by multinational firms.
2) Total market size was estimated using the following formula: Total Local Production + Total Imports – Total Exports = Total Market Size. However, according to IMS Korea statistics, Total Market Size reached USD 7.7 billion in 2005, USD 9.2 billion in 2006 and an estimated USD 10.2 billion in 2007. IMS data is primarily sourced from end-users.

The Korean market, the 12th largest pharmaceutical markets in the world, was valued at USD 9.2 billion in 2006. According to industry sources, Korean market demand for pharmaceuticals is estimated to have grown by approximately 10 percent in 2007 to reach USD 10.2 billion and is forecast to grow at an average annual rate of 10 percent over the next several years since the need for medical treatment for senior citizens is increasing rapidly.

The Korean pharmaceutical market has continued to experience unprecedented restructuring since 1999, when the Korean government implemented significant reforms to improve the transparency of the health care system. These reforms have helped increase have helped increase transparency in the reimbursement system and have, to some degree, leveled the playing field for multinationals. There have also been positive changes in the regulatory climate that have allowed smoother and earlier market access for new, innovative drugs. Multinationals have expanded their share of the total therapeutic (ethical and over-the-counter) pharmaceutical market from 35.7 percent in 2005 to 36.6 percent in 2006.

Over the next few years, one important factor that may slow the growth rate in overall market demand and hamper patient access to innovative pharmaceuticals will be the measures taken by the Korean government to finance the national healthcare insurance system. The Korean government has implemented the National Health (NHI) Insurance Drug Expenditure Rational Plan (DERP) as of December 29, 2006. The key contents of the DERP included a change in the management system from a Negative List System in which all medicines were, in principle, covered by insurance, to a Positive List

System in which mainly the medicines that are superior in cost effectiveness are covered by insurance. Additionally, the National Health Insurance Corporation (NHIC), the single payer, has introduced a price negotiation procedure which determines whether a new drug should be listed and at what price.

Notwithstanding the Korean government's cost containment measures, the U.S. government will continue to work closely with and advocate on behalf of U.S. exporters' market access concerns. This includes continuing to encourage the Korean Government to make the market more transparent, to reimburse innovative drugs at appropriate levels, and to ensure Korean patients' access to innovative pharmaceuticals. Industry sources speculate that the Korean government's need to reduce costs will be balanced by satisfying consumer demands for advanced health care over the next few years. We advise U.S. exporters of research-based, innovative drugs to evaluate the impact of the new reimbursement system on their potential sales before entering this lucrative and growing, but challenging, market.

With the Korean government's encouragement, the Korean biotech pharmaceutical industry is striving to invest more in R&D (currently only 4-5 percent based on sales revenue) and diversify from the production of generics and antibiotics. This trend presents excellent opportunities for U.S. biotech firms to participate in Korea's strategic biotech sector. Although Korea's pharmaceutical industry is competitive in terms of chemical synthesizing technologies, it is much less competitive in drug screening, safety evaluation and clinical trials. Korean companies are pursuing strategic alliances with multinational firms to finance R&D for new products or for cross licensing of existing technologies. Industry experts predict that the U.S. market share will increase as more U.S. biotechnology-based products become commercially available over the next few years.

Best Products/Services Return to top

-Therapeutic pharmaceuticals

Opportunities Return to top

The Osong Bio-Technopolis, a program within the Korean Ministry of Health and Welfare, is seeking foreign investment for biotechnology industry development in the high-tech science park at Osong. The 4,633,000 square meter science park will have two major focuses: pharmaceuticals and cosmetics (59.7 percent) and medical devices (25.8 percent). Since the Korean biotech industry is still relatively undeveloped, the timing may be good for U.S. companies interested in getting in on the ground floor.

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Trade Shows

N/A

Key Contacts

Ministry of Health and Welfare
www.mohw.go.kr

Korea Food & Drug Administration
www.kfda.go.kr

Health Insurance Review Agency
www.hira.or.kr

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Medical Equipment and Devices

ITA CODE: MED

Overview

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	2005	2006	2007 (estimated)
Total Market Size	2,534.0	3,038.8	3,379.7
Total Local Production	1,704.1	2,051.7	2,263.1
Total Exports	715.8	821.7	914.4
Total Imports	1,545.6	1,808.8	2,031.0
Imports from the U.S.	520.1	609.8	690.5

(Unit: USD million)
(Source: Korea Medical Devices Industry Association)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

One of the largest Asian markets for medical devices, the Korean market was valued at USD 3.0 billion in 2006 and is expected to increase to approximately USD3.4 billion in 2007. According to industry sources, the medical equipment market is forecast to grow at an average annual rate of 10-15 percent over the next few years. However, one important factor that may slow the growth rate will be the pricing and reimbursement measures that the Korean government grapples with the national healthcare system. For example, the Korean government implemented two-phase price cut for medical devices as of November 1, 2007

Korea depends on advanced medical devices from the U.S., Japan, and the EU to supply about 60 percent of total market demand. In 2007, total imports of medical devices were estimated at USD 2.0 billion, with U.S. imports, estimated to be USD 691.2 million, representing a 34 percent import market share. Market demand for advanced and innovative medical devices is forecast to remain strong in 2007 and over the next several years as Korea's hospitals continue to purchase advanced technology products from abroad and as increasing numbers of elderly Korean patients require sophisticated medical procedures. In general, Koreans are increasingly demanding better care from their national healthcare system as the standard of living continues to improve in the world's eleventh largest economy. Another factor favoring the use of imported advanced medical equipment and devices is the growing number of Korean doctors educated in the U.S. and Europe.

Best Products/Services

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- Cardiovascular devices (e.g. stents, angio cath)
- CT units
- MRI units
- Dental Implants
- Orthopedic implants and joints
- Hemodialysis
- Laser surgical apparatus
- Ultrasonic imaging system
- Sight corrective ophthalmic lens
- etc.

Opportunities

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The Korean government is constructing world-class hospitals with 600-800 beds in the Incheon Free Economic Zone (FEZ). The first hospital at the FEZ is targeted to open in 2010. Since this is the first time that Korea has invited foreign capital participation in healthcare, the development of the Incheon FEZ provides a good export opportunity for U.S. suppliers of high-end medical equipment and devices.

Resources

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Trade Shows

Korea International Medical, Clinical, Laboratories & Hospital Equipment Show 2008
www.kimes.co.kr

Key Contacts

Ministry of Health and Welfare
www.mohw.go.kr

Korea Food & Drug Administration
www.kfda.go.kr

Health Insurance Review Agency
www.hira.or.kr

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Wireless Broadband Internet Equipment and Services

ITA CODE: CSV

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	2005	2006	2007 (estimated)
Total Market Size	N/A	610.5	801.9
Total Local Production	N/A	463.2	628.2
Total Exports	N/A	10.5	20.4
Total Imports	N/A	157.9	194.1

(Unit: USD million)
[Source: The above statistics are unofficial estimates by Commercial Service Korea.]
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

Korea ranks among the top countries in the world for Internet usage and broadband penetration and has one of the highest numbers of broadband subscribers among all OECD countries. Korea's total number of broadband subscribers is estimated to have reached 98 percent of the nation's 15 million households as of the end of 2007 and therefore, service providers are planning for more valued-added services including wireless broadband service and Internet protocol television (IPTV).

Wireless Internet access service in Korea can be categorized into two major services; fixed wireless Internet (WLAN) based on WiFi or Wimax technology, and mobile internet based on code division multiple access (CDMA) technology. Mobile and WLAN services enable users to access all Internet services on handheld devices without cable connections, allowing mobility and convenience. However, in order to satisfy demand for higher bandwidth and mobility over the existing wireless Internet, new "mobile Wimax," or "Wireless Broadband" (WiBro), service was commercialized in June 2006 by KT and SK Telecom using the 2.3 GHz spectrum with limited coverage in Seoul. WiBro will become the foundation of "Ubiquitous-Korea," a seamless Internet access/communication environment planned by the Korean government in cooperation with industry. The WiBro service market is expected to attract 600,000 subscribers in 2008, up from 100,000 subscribers in 2007, driving more demand for hardware and applications.

WiBro technology is part of the IEEE802.16 family of wireless Internet specifications, Wimax, and is expected to offer up to 5-15 Mbps bandwidth to mobile devices traveling at over 60 kilometers per hour (about 37 miles per hour). Major local companies, including Samsung, LG, and PosData, as well as the Electronic Technology Research Institute (ETRI), a Ministry of Information and Communication (MIC)-sponsored R&D think tank, are developing a new standard with the help of the Telecom Technology Association (TTA). The development includes the evaluation and adaptation of different types of foreign and local technologies. ETRI will play a major role in developing and localizing WiBro core technology. The institute plans to make at least 20 percent of the technology homegrown in order to minimize the payment of licensing fees to foreign firms. This aggressive agenda calls for immediate R&D and infrastructure investment for new WiBro technologies by foreign companies since the Korean government has realized the importance of global standardization in order to export new technologies.

Korea's global leadership in wireless communications and broadband Internet access services has spawned tremendous demand for all types of equipment, contents, and solutions, especially for specialized and innovative technologies, providing opportunities for sales of advanced and highly specialized U.S. telecommunications equipment, solutions, and contents.

Best Prospects/Services Return to top

- WiBro Technologies
- Internet Protocol (IP) TV Technology and Digital Content
- High Speed Data Packet Access (HSDPA) 3.5G Technology

Opportunities Return to top

Market demand for WiBro services should drive investment in the telecom sector for the next five years. Nationwide infrastructure installation for WiBro will be deployed in 2008, and more "killer applications" and relevant services including triple play services (TPS), Internet protocol TV, and video on demand (VoD) are expected to be introduced by KT, SK Telecom, Hanaro Telecom, etc. triggering more service and content demand.

According to MIC, the market demand for WiBro service is expected to reach USD 1 billion by 2011 with nine million subscribers and will eventually transition to the 4th generation next generation network (NGN) telecom network. The total market demand for mobile WiMax equipment and solutions is expected to reach a total of USD 2 billion over the next three years.

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Trade Shows

World IT Show 2008 (June 17-23, 2008)
http://www.sek.co.kr
http://www.wisexpso.co.kr

Smart Home Network Show (June 10-12, 2008)
http://www.smarthomeshow.com/en

2008 IT EXPO BUSAN (September 3-6, 2008)
http://www.itexpo.or.kr/2007/english/index

KES 2008 (October 14-18, 2008)
http://www.kes.org

IT-SoC Fair 2008 (October 15-16, 2008)
http://www.it-soc.org/English/index.asp

Key Contacts

Ministry of Information and Communication (MIC) http://www.mic.go.kr/index.jsp

Radio Research Lab (RRL)
http://www.rrl.go.kr/eng/index.jsp

Telecommunications Technology Association (TTA)
http://www.tta.or.kr/English/new/main/index.htm

Electronics and Telecommunications Research Institute (ETRI)
http://www.etri.re.kr/www 05/e etri/

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Computer Software

ITA CODE: CSF

Overview Return to top

	2005	2006	2007 (estimated)
Total Market Size	5,992	5,786	6,023
Total Local Production	5,603	5,368	5,568
Total Korean Exports	125	123	123
Total Imports into Korea	514	541	577

(Unit: USD million)
[Source: The above statistics are unofficial estimates by Commercial Service Korea for the packaged software market]
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

The Korean market for packaged software, including systems infrastructure software (e.g. operating systems, security software), application software (e.g. Word, Excel, enterprise solution packages), and application development/deployment software, was valued at USD 5.9 billion in 2007. Forecasts are for the market to reach USD 6.33 billion in 2008 and grow at an average annual rate of 8 percent for the next three years. Korea's global leadership in wireless communications and broadband Internet access services has spawned tremendous demand for all types of software, especially for specialized and innovative technologies, providing opportunities for sales of advanced and highly specialized U.S. software solutions. U.S. suppliers' willingness to customize their software to meet specific user needs is a critical factor in end-user purchase decisions. Although U.S. software is considered superior, Korean end-users, more often than not, will avoid purchasing from U.S. suppliers if localization cannot be achieved.

In 2007, the total import market for packaged software represented 3.1 percent of the total market demand valued at USD 19 billion, which, in general, consists of packaged software, computing-related services/software, and digital contents. Although the statistics show the import market share to be relatively low, in reality, the substantial amount of localized or customized software and systems integration (SI) services provided by major U.S. subsidiaries that participate in large projects as strategic partners are counted in the total Korean software market share.

U.S.-sourced packaged software accounts for more than 80 percent of Korea's software import market, and U.S. suppliers are expected to remain the principal suppliers of packaged software to Korea for the next several years. Technological advancements in Korea's software sector are still behind that of the U.S. and Japan, a result of Korea's relatively recent computerization and an acute shortage of highly qualified software engineers. Korea's systems integration companies and software developers are actively trying to develop partnerships with global leaders in every segment of IT services and solutions to deliver total solutions to clients in a time-to-market manner and to target the domestic and global market at the same time. U.S. suppliers will continue to enjoy the competitive advantages of strong project management and marketing skills, compared to Korean firms and third-country suppliers.

The overall market demand for packaged software has been growing in relation to the development of Korea's advanced IT infrastructure and related services in the e-commerce and telecom segments and will continue to grow at an average annual rate of 8 percent for the next three years. The fact that the Korean government has increased efforts to strengthen its IPR protection and enforcement through the Computer Program Protection Law (CPPL) has also contributed to the strong growth in demand for both Korean and imported packaged software.

Best Prospects/Services Return to top

- Systems Integrations/IT Services/Software as a Service (SaaS) in Finance, Telecom and the Public Sectors
- Digital Content Development Services/Internet Protocol TV
- Enterprise Solutions Upgrade Projects by Both Major Enterprise and Small-and-Medium Firms

Opportunities Return to top

The market demand for IT services, digital content, and security software are forecast to experience strong growth, driven by mergers and acquisitions among Korea's financial institutions. Companies should expect continued investment in wireline/wireless broadband convergence infrastructure, as well as by growing demand for upcoming Internet Protocol TV.

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Trade Shows

KEPES 2008 (February 20-22, 2008)
http://www.kepes.co.kr/english/index.asp

KPCA Show (International Electronic Circuits Show) 2008 (April 23-25, 2008)
www.kpca-show.co.kr

Electric/Power Korea 2008 (May 14-16, 2008)
http://www.electrickorea.org/e_index.asp

World IT Show 2008 (June 17-23, 2008)
www.sek.co.kr

Security World Expo 2008 (June 25-27, 2008)
http://www.securexpo.com

2008 IT EXPO BUSAN (September 3-6, 2008)
http://www.itexpo.or.kr/2007/english/index.htm

KES 2008 (October 14-18, 2008)
http://www.kes.org

IT-SoC Fair 2008 (October 15-16, 2008)
http://www.it-soc.org/English/index.asp

Seoul International Electric Fair 2008 (October 28-31, 2008)
http://www.kintex.com/english/main.jsp

RFID/USN KOREA 2008 (November 5-7, 2008)
http://www.rfidkorea.or.kr

E-Biz Expo 2008 (November 20-22, 2008)
www.ebizexpo.co.kr

Key Contacts

Ministry of Commerce, Industry and Energy (MOCIE)
http://www.mocie.go.kr/eng/default.asp

Ministry of Information and Communication (MIC)
http://www.mic.go.kr/index.jsp

Radio Research Lab (RRL)
http://www.rrl.go.kr/eng/index.jsp

Korea Association of RFID/USN (KARUS)
http://karus.or.kr/eng/index.asp

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Cosmetics

ITA CODE: COS

Overview

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Unit: USD million

	2005	2006	2007 (Estimated)
Local Production (Not including exports)	4,631	5,041	N/A
Exports	269	302	334
Imports	500	597	N/A
Imports from U.S. (Included in imports)	115	145	N/A
Total Market	5,400	5,941	6,172

[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]
Source: Korea Cosmetic Association, Korea Pharmaceutical Traders Association, And Amore Pacific 2007 Cosmetic Industry Forecast

During the last few years, Korean women have become more receptive to western health and beauty items. As more Korean women enter the labor force and experience rising incomes, they have become avid users of imported cosmetics, yielding significant gains for U.S. suppliers. Other trends have developed in tandem with the continued strong expansion of the Korean market for imported cosmetics. As Koreans tend to be more health-conscious, following the "well-being" trend, they prefer natural and "green" cosmetics products. Also, since Korean women want to look younger and healthier, functional cosmetics, so-called cosmeceuticals, focusing on anti-aging, whitening, and anti-ultraviolet care have become very popular. Another trend is that Korean men are also becoming significant consumers of cosmetics, providing opportunities for cosmetics companies featuring men's lines. As the Korean cosmetics market continues to be polarized, with products focused at the premium end and at the lower-priced, mass-market end, two distinct groups of consumers are the target audiences: those shopping at low-cost cosmetics franchise stores and those shopping for very expensive and luxurious cosmetics at department stores. The U.S. - Korea Free Trade Agreement (KORUS FTA) signed between both nations in June 2007 has the potential to bring further advantages for U.S. exporters as Korean tariffs on imported U.S. cosmetics are eliminated over three to ten years. These market trends portend good opportunities for U.S. companies in the years ahead.

Some foreign cosmetics companies claim that the importation process is unnecessarily complex and time-consuming. The Korean government has announced that it will increase the budget to hire more personnel to handle the Korea Food and Drug Administration's (KFDA) testing and approval process due to the increasing number of cosmeceutical products entering the market.

Sales of men's cosmetics in Korea have increased significantly, to approximately USD 520 million or about nine percent of the overall market in 2007. This market segment is estimated to continue healthy growth in 2008 to USD 563 million (source: Amore Pacific). This growth reflects the trend that men have expanded their interest from simple skincare to other cosmetics, such as facial scrubs, facial masks, congealers, SPF products, and other cosmeceutical products.

With this trend, men’s skincare salons have opened in business districts, providing one-stop total beauty and hair care services including hair cutting, perms, treatments, as well as facials. To meet this increasing demand for men’s skincare products, many department stores have opened men’s cosmetics counters on the men’s floor featuring multiple brands, such as Clinique, Clarins, and Biotherm with after-shave lotions, cleaning foams, facial scrubs, facial packs, essences, and other functional cosmetics.

According to research from the Korea Cosmetic News, skin care products make up about 15 percent of the total cosmetics market, or about USD 903 million. Imported cosmetic skin care products accounted for about 50 percent of the USD 903 million, or USD 451.7 million. The most sought after products by consumers are cosmeceuticals such as whitening and anti-wrinkle products. Also, as more consumers become aware of natural ingredients, and as their preference for natural/organic products increases, local industry is focusing on developing natural/organic products.

Best Prospects/Services Return to top

- Men’s Cosmetics
- Natural/Organic Skincare Products
- Cosmeceuticals

Opportunities Return to top

The cosmetics/cosmeceuticals industry's retail distribution channels have expanded in the last several years. The recent introduction of on-line shopping malls, television home-shopping channels such as QVC, pharmacies/drug stores, and catalogue orders have emerged as challengers to traditional retail channels such as direct selling, multi-level marketing, "mom and pop" stores, specialty retail establishments, department stores, discount stores, etc.

There are currently three major franchised drug stores competing in the local market, Olive Young by CJ, W-Store by Kolon, and GS Watson’s by GS in partnership with Watson’s. These retailers target customers focusing on wellness products by providing organic/natural cosmetics, nutritional supplements, OTC drugs, and general consumer goods. U.S. companies should seek opportunities in line with this new retail concept.

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Major Show

Name: Cosmobeauty Seoul
http://www.cosmobeautyseoul.com/en/index.php

Key Contacts

Korea Food & Drug Association (KFDA)
http://www.kfda.go.kr/

Korea Pharmaceutical Traders Association (KPTA)
http://www.kpta.or.kr/E_main.asp

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Travel and Tourism

ITA Industry Code: TRA

Overview

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	2005	2006	2007 (Estimated)
Outbound Travel	10,080,143	11,609,878	13,000,000
Outbound Travel to the U.S.	665,181	800,000	880,000
Inbound Travel	4,347,318	6,155,047	6,350,000

Source: Korea Tourism Organization

Interest in international travel by Koreans has been spurred by rapidly rising GDP, gradual increases in leisure time, heightened globalization, and greater awareness and interest in developments outside the Korean peninsula. Korea's per capita GDP has risen to almost USD 24,000, placing it securely in the ranks of middle-income countries. Korean consumer confidence also has increased along with a sharp rise in discretionary spending for such activities as overseas travel for both business and leisure. Korea also has begun to upgrade its domestic tourism sector infrastructure.

With these changing cultural and income factors, conditions look promising for more growth in the outbound Korean travel market. Koreans are showing an increased desire to travel to the U.S. despite the lengthy travel time and the relatively high airfares required to make the trip. The Korean mass media is influenced by U.S. movies, advertising, popular culture, and most recently, the Internet, which continue to stimulate Koreans' interest in U.S. travel destinations. Koreans overwhelmingly choose the U.S. as a non-Asian destination because of the diversity of tourism opportunities not easily available back home, including U.S.-style shopping, theme parks, cultural attractions in major U.S. cities, relatively inexpensive golfing experiences, and the major U.S. national parks.

In 2007, 13 million Koreans traveled abroad, an increase of 10.6 percent over 2006. The Korean Tourism Organization (KTO) estimates that 880,000 Koreans traveled to the U.S. in 2007, a 10 percent increase over 2006, when 800,000 visited the U.S. The number of Korean travelers to the U.S. has varied greatly over the past decade. Prior to the Asian financial crisis in 1997, 806,264 Koreans traveled to the U.S., then sharply decreased. Since then, the numbers slowly picked up back to 719,227 by 2000. However, the September 11, 2001, terrorist attacks caused the number of travelers to the U.S. to decrease. Only recently are the numbers beginning to surpass 1997 levels. Competition from other destinations that do not require visas, such as Japan and Southeast Asian countries, is strong. Thailand is becoming a popular honeymoon destination. The stricter U.S. visa regime put in place following 9/11, which requires the U.S. Embassy to fingerprint and interview all applicants for U.S. visas, has dampened some interest in leisure travel to the U.S. However, recent legislative changes in the U.S. make it likely that Korea will join the Visa Waiver Program within a few years, which will increase the number of Korean travelers to the U.S.

As reported by the U.S. International Trade Administration, Korea is currently the seventh-largest source of inbound travel to the U.S., behind Canada, Mexico, the United Kingdom, Japan, Germany, and France. In 2006, Korea accounted for a modest one percent of the total 51 million foreign visitors to the U.S.

Best Prospects/Services Return to top

- High quality group package tours to the U.S.
- Family/leisure trips

Opportunities Return to top

Following traditional travel patterns and because the U.S. is a country that offers a variety of activities, climates, and cultural experiences, the U.S. is by far the leading non-Asian destination for Koreas. KTO figures indicate that in 2007, a record 13 million Koreans traveled to other countries. Out of the top five destinations for Koreans, China ranked number one, followed by Japan and the U.S. Travelers to the U.S. account for 6.5 percent of the Korean outbound tourism market. Korean travel industry sources indicate that Los Angeles, San Francisco, Las Vegas, and Seattle are the most popular U.S. destinations, followed by the East Coast New York-Washington D.C corridor. United Airlines expanded its routes to include non-stop service between Seoul and San Francisco in March 2006; Korean Air inaugurated direct non-stop flights between Seoul and Las Vegas in September 2006; Delta Air Lines launched its direct link between Seoul and Atlanta in June 2007; and Korean Air has increased the frequency of service from Seoul to its Honolulu and Dallas markets.

Koreans usually travel to the U.S. on package group tours or individually to visit their friends, families, and relatives. The market for group tours has untapped demand for higher-class services that provide a variety of activities and cater to the more sophisticated tastes of seasoned Korean travelers. Koreans who travel to the U.S. are very much interested in visiting not only museums and amusement parks, but in looking for bargains at fashion outlets, playing golf, and visiting wineries.

Resources Return to top

Major Show

Name: Korea World Travel Fair
http://www.kotfa.co.kr/eng/main/main.htm

Key Contacts

Korea Tourism Organization
http://english.tour2korea.com/07T2KZone/aboutUs/top_tour2korea.asp?konum=1&kosm=m7_7

Ministry of Culture and Tourism (MCT)
http://www.mct.go.kr/english/index.jsp

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Broadcasting Services and Equipment

ITA CODE: AUV

Overview

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	2005	2006	2007 (E)
Total Market Size	253	238	245
Total Local Production	26	27	30
Total Exports	N/A	10	15
Total Imports	217	201	200

(Unit: USD million)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]
(Source: Ministry of Information and Communication)

Driving the development of digital content are new and potentially exclusive channels, basic and premium tier channels, plus on-demand content from domestic and foreign program suppliers. The business of digital programming and content is made highly attractive by significant competition from cable, the rise in direct to home (DTH) services, the advent of Internet protocol television (IPTV), a projection that the digital TV universe will be almost all-pay by 2015, and major gains in consumer purchases of digital set-top-boxes (STBs). It is forecast that total subscription revenues for pay TV will grow from USD 131 million in 2004 to over USD 427 million by 2010 and will be USD 658 million by 2015.

Cable TV was launched in Korea with analog broadcasting service in 1995 featuring 24 channels (program providers) delivered by 54 cable system operators (SOs). Currently, 103 SOs are transmitting cable TV content. Digital terrestrial TV was introduced in 2001, and digital cable TV services launched in 2004. As a result, Korean cable TV SOs and program providers need to digitize most of their broadcasting facilities from 2003 to 2010. After the introduction of DTH services in 2000, the Korea Digital Satellite Broadcasting consortium (KDB) acquired the necessary license and launched pay TV services in March 2002 via its DTH satellite platform SkyLife. SkyLife acquired more than 1.96 million digital DTH subscribers in 2007, a 10.7 percent penetration rate of TV households in Korea.

Attracting portable TV viewers is becoming more competitive. Since December 2005, terrestrial providers have moved into digital multimedia broadcasting (DMB), which allows viewers to watch TV via a cell phone. The rapid growth of DMB has become a hot trend, drawing the attention of the media and consumers. According to the Ministry of Information and Communication (MIC), the number of satellite DMB subscribers reached over two million as of October 2007. These new satellite DMB services enable viewers to consume different types of video content, but they are discovering that content is severely lacking. Lack of available content has forced providers to show amateur videos – to fill time, a provider broadcast the finalists of a university student video contest. According to the Korea IT Industry Promotion Agency, the market demand for digital video content is relatively small, at approximately 5.5 billion Won, around USD 5.4 million, in 2005. However, the industry is forecast to grow to be worth several billion dollars by 2010 as new service platforms are implemented.

In 2005, market demand for TV broadcasting equipment and services reached an estimated USD 240 million. Although equipment is currently being procured primarily for terrestrial TV broadcasting, the market demand for digital equipment for cable and satellite TV services is forecast to be very strong over the next three to five years. There are no major market access barriers for broadcasting equipment, and most categories of equipment enter Korea with an eight percent duty based on cost-insurance-freight (c.i.f.) value.

Spending among the multi-station operators (MSO) has driven opportunities for suppliers of digital equipment for terrestrial broadcasting. In March 2004, the National Assembly revised the broadcasting law allowing for the establishment of digital services. The law also allows increased foreign investment in Korean SOs and program providers. This investment will speed up the deployment of digital cable TV, which in turn means increased opportunities for equipment suppliers and program providers.

Best Products/Services

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- Broadcasting equipment (encoding/multiplexing/modulating equipment)
- Test and measurement equipment
- Graphic equipment
- Production equipment
- Video servers and switchers

The shortage of quality content to supply the growing new service platforms represents a real opportunity for U.S. content providers. The best prospects for imported content and programming are in the areas of movies, sports, animation, drama, and documentaries.

Opportunities

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Korea maintains certain broadcasting quotas (e.g., cable companies are limited to using no more than 20 percent of their channels for foreign channel retransmissions, and local content must account for 35 percent of animation channel programming). While these are market barriers, there is a general dearth of local content, so foreign content is still in demand.

The surge of investment in new broadcasting services represents important opportunities for U.S. program providers (PPs). Korea currently has four terrestrial TV networks, 160 satellite TV channels, and approximately 70 cable TV channels. After the launch of digital satellite and digital cable TV services, the current total number of Korea's satellite and cable channels reached approximately 200. Also, the number of subscribers to the satellite and expanded cable TV services reached more than 80 percent of all households in Korea and will create great demand for foreign programming. Currently, U.S. programming accounts for approximately 70 percent of all imported programming. With the popularity of U.S. programming in Korea and the enormous projected increase in channels, U.S. PPs are well positioned to expand rapidly in Korea's growing market. As of December 2007, there were about 200 registered PPs in Korea. Among this number, approximately 70 PPs are responsible for the majority of activity in the market, providing programming both to satellite and cable

TV channels. Although digital broadcasting equipment for terrestrial TV services is forecast to remain the largest market segment through 2010, Korea's launch of digital satellite and digital cable TV broadcasts will continue to bolster strong market demand over the next three years.

KDB, the platform operator for satellite TV in Korea, projects purchases of digital broadcasting system equipment to average USD 14.5 million annually over the next seven years. However, the investment plan is contingent upon increases in the numbers of subscribers. KT (Mega TV), Hanaro Telecom (Hana TV), and LG Dacom (My LG TV) launched and aggressively promote digital video services (or IPTV) over ADSL, VDSL, and fiber to the home (FTTH) networks. Also, non-network operator Daum plans to launch service soon, in cooperation with Microsoft. This may take longer to execute due to regulatory restrictions, but the threat of an integrated product bundle will clearly be a challenge to cable. As a result, SOs are increasingly focusing their efforts on deploying digital set-top-boxes in volume, bundled with both Internet and, in the future, VoIP services.

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Trade Shows
Korea Electronics Show
http://kes.org/kes2006/eng/main/index.html

Korea International Broadcast, Audio and Lighting Equipment Show (KOBA)
http://www.koba.or.kr/eng/main.asp

World IT Show 2008
http://www.worlditshow.co.kr/eng/index.php

Key Contacts
Ministry of Information and Communication (MIC)
http://www.mic.go.kr/index.jsp

Korea Broadcasting Commission
http://www.kbc.go.kr/english/index.jsp

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Education and Training Services

ITA CODE: EDS

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	2005	2006	2007 (E)
Total Market Size	107,525	104,018	114,420
Total Local Production	102,320	98,740	108,720
Total Exports	N/A	2	3
Total Imports	5,205	5,275	5,697

(Unit: USD million)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]
(Source: Ministry of Education and Human Resources, Korea National Statistical Office)

Korea's education market plays a significant role in the country's overall economy and offers exceptionally good opportunities for the U.S. education sector. According to the Organization for Economic Cooperation and Development (OECD), Korea is one of the largest investors in education among developed countries. Korea's education sector offers good opportunities for U.S. educational institutions because Koreans still prefer the U.S. to other nations competing for education dollars. The Korean market also looks promising for cooperative programs involving e-learning and educational training in the fields of language training, business administration, and technical programs.

Higher education throughout Korean history has been synonymous with privilege and power. A degree from a well-known institution is a status symbol and essential for finding the right job in the right company. Coveted spaces in Korea's top schools are open for competition from all students, but are attainable only by a few. Many talented students opt for the best schools overseas. The desire to obtain a diploma from an accredited overseas school translates into opportunities for U.S. schools to recruit some of Korea's most talented students, and Koreans remain willing to spend a substantial portion of their incomes on education.

The market for overseas education continues to grow and is being augmented by e-learning as well as business training. According to the Student and Exchange Visitor Information System (SEVIS), U.S. Immigration and Customs Enforcement, as of October 2007, 107,834 students from Korea were studying in the U.S. Korea is the leading supplier of foreign students to the U.S., followed by India and China, for the third year in a row.

Rank	Place of Origin	2005	2006	October, 2007
1	Korea	81,616	93,728	107,834
2	India	67,761	76,708	95,525
3	China	54,562	60,850	75,744
4	Japan	49,422	45,820	45,207

Source: Student and Exchange Visitor Information System (SEVIS), U.S. Immigration and Customs

The Korean Ministry of Education statistics indicate that as of April 2007, a total of 217,959 Korean students were studying abroad. The U.S. (27.1 percent), China (19.4

percent), U.K. (8.4 percent), Australia (7.6 percent), Japan (8.7 percent), Canada (5.9 percent), and other countries (2.9 percent) host most of these Korean students. Over the past few years, the U.S. share of the Korean study abroad market has remained fairly constant, although from 2001 it began to see a slight erosion as some Korean students considered other options to U.S. schools, primarily because of relatively higher costs to attend U.S. schools and perceived challenges to receiving a U.S. F-1 student visa. Although U.S. schools and institutes remain very popular with Koreans, other countries such as Britain, China, Australia, Japan, and Canada are also vigorously promoting themselves as attractive destinations for Korean students.

Best Products/Services Return to top

- 6-12 month business, finance, or IT training for mid-career professionals
- Community colleges
- Vocational training in the manufacturing sector
- Short-term English language training

Opportunities Return to top

Market demand continues to grow for short-term (four weeks to two months) or long-term (one year) English language training in U.S. schools for college students during summer (typically from the middle of June until the end of August) and/or winter breaks (typically from the end of December until the end of February). Among Korean college students, English language training in the U.S. not only improves language skills but also provides a U.S. school and cultural experience. This experience leads many students to choose the U.S. for subsequent academic study.

Participation in education fairs held in Korea is one way to recruit. The fairs are categorized by level of schools (high schools, community colleges, four-year colleges and graduate programs). Almost all education fairs are held during the spring (March) and fall (September and October).

Utilizing educational consulting agents is the most efficient way to recruit Korean students. As Korea sends the largest number of students to the U.S., choosing the right partners in Korea is key for U.S. higher education institutions to enter the Korean market.

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Trade Shows

MBA Tours
http://www.thembatour.com/index.shtml

American Education Fair
http://www.isnexpo.com/

University Fair organized by Linden Tours
http://www.lindentours.com/int_students/fairs/upcoming_fairs.shtml

Korea Student Fair
http://www.aief-usa.org/

Key Contacts

Ministry of Education and Human Resources
http://english.moe.go.kr/

Fulbright (Korean-American Educational Commission)
http://www.fulbright.or.kr/en.php

KOSA (Korea Overseas Studying Agencies)
http://www.kosaworld.org/

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Automotive Parts and Accessories

ITA CODE: APS

Overview
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	2,005	2,006	2007 (Estimate)
Total Market Size	36,667	41,741	45,999
Total Local Production	41,732	48,432	54,546
Total Exports	7,860	10,014	12,380
Total Imports	2,796	3,323	3,832

(Unit: USD million)
(Source: The above statistics are unofficial estimates based upon Korea Automotive Industry Cooperative Association reports)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

In 2007, Korea manufactured 4 million automotive vehicles, making it the fifth largest car manufacturer in the world after the Japan, the U.S., China, and Germany. The total size of the automotive parts market was estimated at USD 46 billion in 2007, a 8 percent increase from 2006. The OEM market segment accounted for about 94 percent of total market demand and the aftermarket represented about the remaining 6 percent.

Imports increased to USD 3.8 billion in 2007 from 3.4 billion in 2006 to account for 8 percent of the total market demand. Asian countries, including Japan, are the principal exporters to Korea, accounting for 46 percent of the total import. EU and North America follow Japan with a 38 percent and 14 percent market share, respectively. CS Korea forecasts that imports will continue to grow over the next two years to reach a value of USD 4.7 billion in 2009.

Major U.S. exports items for OEM market include gear boxes, wheels, steering parts, and engine parts, among others. For aftermarket, road wheels, spark plugs, ignition cables among others are well-received U.S. products.

In the era of global competition in the automotive industry, Korean OEMs are expected to expand global outsourcing practices for the procurement of parts and accessories. Industry sources predict that the launch of Hyundai Motors' manufacturing plant in Alabama, and the planned launch of KIA Motors' Georgia plant in 2009 will accelerate the trend. As import passenger cars gain more market share in Korea, the aftermarket for replacement parts is forecast to grow as well.

Best Products/Services
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For OEMs:
- leading-edge engine designing, engine control units (ECU), electronic engine parts
- advanced core parts including automatic transmissions, anti-lock brake systems and air bags
- hybrid car and pollution-free car related technologies

For aftermarket:

- replacement parts
- spark plugs
- ignition cables
- timing belts
- wiper blades
- high-end car audio systems and components
- high-performance automotive chemicals, such as wax and rust-proofing solutions and accessories like window films.

Opportunities Return to top

U.S. suppliers need to be aware of the competition, and offer products with a technological advantage vis-à-vis the competition. Exporters must also educate end-users about the advanced features of their products. It is strongly recommended to partner with qualified and capable Korean distributors who maintain their existing sales network to serve end-users. Exhibiting at local automotive trade shows can be a useful platform to explore the market and gain exposure to end-users.

Doing business with the Hyundai plant in the U.S. and U.S. parts suppliers with a manufacturing base in Korea is highly recommended to gain access to the Korean market. Most of the major auto parts suppliers including Delphi, Visteon, TRW, Johnson Automotive Controls, etc. have a manufacturing base in Korea.

To supply to aftermarket, U.S. exporters are recommended to explore opportunities to supply using existing OEM's after-sales service networks, automotive service franchises, independent auto service shops, etc.

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Trade Show

Korea Auto Parts & Accessories Show 2008 (KOAA Show 2008)

http://www.koaashow.com/

Key Contact

Ministry of Construction and Transportation
http://www.moct.go.kr/EngHome/

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Pollution Control Equipment

ITA CODE: POL

Overview

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	2005	2006	2007 (estimate)
Total Market Size	5,394	6,253	7,142
Total Local Production	5,177	6,015	6,882
Total Exports	301	364	428
Total Imports	518	601	688

(Unit: USD million)
(Source: The above statistics are unofficial estimates by Commercial Service Korea.)
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

Korea, like most industrialized and urbanized states, is concerned about pollution and is strengthening regulations in order to improve the environment. The Government of Korea continues to initiate and introduce national environmental projects as well as strengthening the enforcement regime. Therefore, it is government policy and action that is the driving force in the pollution control market in Korea.

CS Korea estimates the size of pollution control equipment industry at USD 7 billion in 2007. According to industry experts, imports account for about 10 percent of the total market. Japan is the principal foreign supplier with about 47 percent market share, followed by the U.S. with 32 percent market share, Germany and France.

Local environmental equipment manufacturers in Korea have supplied a major portion of environmental projects with medium-level technology and medium-cost products. While they have significantly improved their technology prowess mostly through technology transfer and merger with non-Korean suppliers, they still lack the core technologies to supply the products that meet the government's stringent regulatory requirements, and are seeking more advanced import products and technologies.

Best Products/Services

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- Volatile organic compounds (VOCs) control in oil refineries and petrochemicals
- Dioxin abatement in municipal and industrial incinerators
- Advanced sulfur oxides/nitrogen oxides (SOx/NOx) abatement in power plants and steel mills
- Energy saving and waste-to-energy in steel mills and municipal landfills
- Pollution-free and low-emission vehicles in engineering technology, engine components and parts for CNG; pollution abatement technologies for automobile, oil refinery industries
- Advanced water pollution control technology
- Environmentally friendly construction materials

Opportunities

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The Korean government plays a key role in the pollution control equipment industry, as the regulatory body and also as the biggest end-user. According to Bank of Korea statistics, the Korean government's expenditure for environmental protection was estimated at about USD 9.8 billion in 2007, near half of the total national expenditures of USD 21 billion. The general industry and pollution control service providers followed spending USD 6.5 billion, and USD 3.8 billion, respectively. For government projects, the tenders are announced on the Korean government procurement (PPS) website with detailed information on the project scope and contact information.

To enter the pollution control equipment market, U.S. suppliers are strongly recommended to partner with qualified and capable Korean companies who maintain their existing sales network to serve end-users, and are fully aware of regulatory changes that drive the market. Exhibiting at local environmental trade shows can be a good platform to explore market as well as gain exposure to end-users.

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Trade Show

International Exhibition on Environmental Technologies (ENVEX)
http://www.envex.or.kr/envex/eng/index.asp

Key Contacts

Ministry of Environment
http://eng.me.go.kr/user/index.html

Public Procurement Service (PPS)
http://www.pps.go.kr/neweng

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CNC Machine Tools

ITA CODE: MTL

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	2005	2006	2007(estimated)
Total Market Size	4,180	3,800	4,200
Total Local Production	3,190	3,300	3,900
Total Exports	1,265	1,350	1,650
Total Imports	2,200	1,800	1,900

(Unit: USD million)
(Source: The above statistics are unofficial estimates based upon reports from the Korea Customs Service and Machine Tool Manufacturer's Association of Korea.
[USD1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

Korea's market for machine tools has shifted from standard, cost-effective or general products to high-precision, high-speed and high-powered machine tools. In 2007, computerized numerically controlled (CNC) cutting machine tools, including lathes, milling machines, and machining centers, represented 79 percent of total domestic machine tools demand while non-CNC and metal forming machines, including presses, represented the remaining 21 percent. The biggest demand for machine tools exists in the automotive production, metal processing, electronics and precision machine industries.

The Korean Machine Tools Manufacturers Association estimates that the import market increased 5 percent from 2006 - 2007. This is largely due to the increasing demand for parts in the automotive and shipbuilding industry. According to the Korean Customs Service, the United States is the second largest importer of machine tools to Korea, with a 37 percent market share. Japan maintains a 38 percent market share and Germany holds a distant 10 share of the market. Trends over the past three years have shown the import market to be highly volatile. For example, imports increased 20 percent in 2005 to USD 2 billion only to see a 10 decline in 2006 and a slight recovery to USD 1.9 billion in 2007.

The Korean CNC machine tools industry continues to be led by investment in production facilities by major manufacturing industries, such as automobiles, shipbuilding, telecommunications, construction equipment and electronics, including the semiconductor sector. In particular, many companies are investing in factory automation that will account for growing market demand in advanced machine tools. Given the volatility of the market and the ability of Korean competitors to produce quality machine tools, US importers are most successful where they offer a cost or technological edge.

Best Products/Services Return to top

- CNC turning centers
- CNC vertical machining centers
- CNC horizontal machining centers
- CNC 4 & 5-axis machining centers
- Machines for the production & processing of semiconductor wafers

- Machines for dry-etching patterns on semiconductor materials
- Laser cutters for the production of semiconductors

Opportunities Return to top

For exporters of U.S. products to Korea, establishing strategic alliances, such as joint ventures or licensing agreements, with leading Korean machine tool manufacturers is recommended. Hiring local agents or distributors also is one of the most effective ways to sell U.S. products in the Korean market. Large machine tool manufacturers have expressed interest in partnering with U.S. CNC machine tool manufacturers.

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Trade Shows

Seoul International Tool & Related Equipment Exhibition
www.tool.or.kr

Korea Machinery Fair (KOMAF) 2007
www.komaf.org

Seoul International Machine Tool Show (SIMTOS) 2007
www.komma.org

Key Contacts

Industrial Machinery Division of the Ministry of Commerce, Industry & Energy:
www.mocie.go.kr

Korea Machine Tool Manufacturers Association:
www.komma.org

Korea Tools Industry Cooperative:
www.tool.or.kr

Korea Association of Machinery Industry:
www.koami.or.kr

Korea Construction Equipment Manufacturers Association:
www.kocema.org

Korea Automobile Manufacturers Association:
www.kama.or.kr

Korea Automotive (Auto Parts) Industries Cooperative Association:
www.kaica.or.kr

Korea Aerospace Industries Association:
www.aerospace.or.kr

Korea Aerospace Research Institute:

www.kari.re.kr

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Construction

ITA CODE: ACE

Overview

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	2005	2006	2007
Total Market Size	99,400	112,947	114,731
Total Local Production	103,279	129,568	154,135
Total Exports	4,076	16,730	39,800
Total Imports	197	109	397

(Unit: USD Million)
(Source: The above statistics are unofficial estimates based upon reports from the Korean National Statistical Office and the Engineering and Consulting Association of Korea.)
[USD 1= 1,000 Won (2005), 950 Won (2006), 930 Won (2007)]

Continued and strong economic growth plus increased real estate development and continued work on large-scale infrastructure projects will bring strong market opportunities in real-estate development, project and construction management, supervision, supplying construction materials, architectural design, urban planning, and civil engineering consulting services.

Korea seeks to position the nation as a logistics and financial hub of Northeast Asia. As such construction and the building of large infrastructure to meet its requirements has led to a 2007 construction bill estimated at over USD 114 billion. With Korea's accession to the World Trade Organization in 1997, the construction and civil engineering market was opened to international firms.

Korean demand for construction services is driven by demand in the following four diverse, yet closely linked construction sub-sectors: construction of residential apartment buildings, civil engineering services, construction work of commercial/ industrial facilities and government-initiated infrastructure. In 2007, Korea's spending on constructing residential buildings was estimated to be USD 55 billion and Korea's civil engineering projects was estimated to be USD 30 billion; government infrastructure projects was estimated to be USD 33 billion; while Korean investment in commercial/industrial facilities stood at USD 15 billion. Korea anticipates that spending will continue to increase due to increased residential redevelopment and government projects, which are estimated at USD 114 billion.

One significant government construction project is the government-backed Ubiquitous City development, which should add an additional USD 36 billion in projects by 2010. The Ubiquitous City development will also lead to additional technology to be incorporated as these new urban development projects will be linked with the latest information systems technology including wireless networking and RFID.

The total value of imported construction and civil engineering services was USD397 million in 2007. However, the Korean market will require higher financing capabilities and new design and engineering technologies for major urban developments. Generally these are not available in Korea and foreign real-estate developers, project management companies and engineering companies will have opportunities to fill these important gaps. Key engineering technologies will be in demand for tourism as well as ubiquitous infrastructure, information and telecommunications, urban planning, green building, water supply, sewage and waste treatment and disposal, earthquake-proof buildings, and industrial processing facilities.

As the Korean engineering services market evolves, the demand for technically advanced services continues to rise, creating additional demand for very creative and innovative services and technologies from the U.S, Europe, and Japan. U.S. engineering firms working in Korea are expected to expand their activities into the future as U.S. companies continue to hold a strong position in advanced engineering and soft technologies.

Best Products/Services Return to top

- Real-Estate Development & Project Management
- Engineering consulting
- Urban planning
- Ubiquitous City infrastructure
- Construction Materials
- Structural/mechanical engineering services
- Earthquake-proof engineering
- Architectural Design
- Green Building engineering

Opportunities Return to top

New Songdo City development project --- Construction of the International Business Complex, the High-Tech Industry Park and the Biological Industry Complex.

U.S. Base Relocation Project --- U.S. Forces-Korea (USFK) relocation project is consolidated into the Land Partnership Plan (LPP) and the relocation of the Yongsan US Army Garrison. The USFK will surrender 36 bases and training facilities to the Korean government. DOD will consolidate numerous small garrisons and camps and have USFK operations move from the center of Seoul and the surrounding region to a new facility in Pyongtaek region. The prime management contract has been awarded to the U.S. engineering firm CH2M Hill and scope of work requirements and timelines are being developed.

Seoul Subway Line No. 9 Project Phase II --- Construction of a 12.5 kilometers subway in the southeast area of Seoul.

Ubiquitous City Infrastructures---There are currently 7 key Ubiquitous City development projects underway: Incheon Free Economic Zone, Busan U-City, Pankyo U-Healthcare Town, Jeju Telematics, Suwon Techno Valley, Osong U-Bio City, Changwon U-City and U-Jeonju .

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Trade Shows

Sejong-Newtech Expo 2007
www.sejongexpo.or.kr

Korea Construction Fair 2007
www.kfcis.or.kr

Conex Korea 2007
www.conexkorea.org

Key Contacts

Ministry of Construction & Transportation
www.moct.go.kr

Seoul Metropolitan City Government
www.seoul.go.kr

Incheon Metropolitan City Government
www.incheon.go.kr

Gyunggi Provincial Government
www.gg.go.kr

Construction Association of Korea
http://www.cak.or.kr/

Korea Engineering & Consulting Association
www.kenca.or.kr

Korea Institute of Construction Technology
www.kict.re.kr

Construction & Economy Research Institute of Korea
www.cerik.re.kr/

Local Contact

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Seoul 110-710 Korea
Tel: 82-2-397-4130
Fax: 82-2-739-1628
E-mail: nathan.huh@mail.doc.gov
Website: www.buyusa.gov/korea

Agricultural Sectors

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For a listing of the best prospective U.S. agricultural and food products for the Korean market, see page 25 of the Foreign Agricultural Service's Exporter Guide for Korea. Additional detailed information for each food sector can be found by searching the Attaché reports for Korea.

Korea is the fifth largest market for U.S. agricultural products. U.S. exports of agricultural products to Korea totaled USD 16.4 billion in 2006.

Changes in Korean lifestyle and dietary culture, along with remarkable development in socio-economic environment, have resulted in significantly expanded demand for processed food and beverage products. Increasing affluence, more women in the workforce, and a well-traveled younger generation looking for foods with an international flavor are promoting the rise in popularity of convenience stores, bulk retail outlets, and western-style and family restaurants. The demand for products, such as frozen vegetables, sauce preparations, and confectionery items is growing and the domestic processing industry lacks the capability to supply these items. Additionally, local agricultural output currently does not meet the demand of the local processing industry.

When considering the Korean market, U.S. food exporters should conduct preliminary research to determine if the market is appropriate for the product. Possible sources of market information include Korean importers, U.S. state departments of agriculture, the U.S. Agricultural Trade Office in Seoul and the U.S. Department of Commerce. Lists of Korean importers, by product, can be obtained from the U.S. Agricultural Trade Office, or through the Foreign Agricultural Service in Washington, D.C. The next step might include sending catalogues, brochures, product samples, and price lists to prospective importers as a way of introducing the company and products.

Once contact is established, it is advisable to visit the importer(s) in person, which will increase the seller's credibility with the Korean importer and give an opportunity to see the Korean market first hand. In Korea the clichés about "seeing is believing" and "one visit is worth a 1,000 faxes" are especially true. There is no substitute for face-to-face meetings. The supplier or exporter should bring samples as well as product and company brochures including price lists, shipping dates, available quantities, and any other information needed for negotiating a contract. While information in English is acceptable, having it in Korean is helpful. A general overview of the firm in Korean is a good place to start.

The Seoul Food & Hotel 2007 show will be held in Ilsan April 24-27, 2007. It presents an excellent opportunity to explore possible market opportunity-es in Korea. This show is a trade only show and targets importers, wholesalers, distributors, retailers, hotels, restaurants, food processors, media, etc. It is currently the only USDA-supported food show in Korea.

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Import Tariffs

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Korea bound 92 percent of its tariff-line items as a result of the Uruguay Round negotiations with its average basic tariff at about 7.9 percent. Duties still remain very high on a large number of high-value agricultural and fisheries products. For example, Korea imposes tariff rates of 30-100 percent on many agricultural and horticultural products of interest to U.S. suppliers. Under WTO "Zero for Zero" initiatives, Korea is in the process of reducing tariffs to zero on most or all products in the following sectors: paper products, toys, steel, furniture, semiconductors, and farm equipment.

Tariff reduction or elimination was also a key subject under discussion in the bilateral U.S.-Korea Free Trade Agreement (KORUS-FTA) negotiations. The KORUS-FTA has been signed by the parties and is awaiting parliamentary passage in the Korean National Assembly and the U.S. Congress. The KORUS-FTA offers the prospect, once ratified, of immediate elimination on hundreds of Korean tariff lines, on U.S. exports with a value of billions of dollars, with tariff elimination phased in over a three-, five-, or ten-year period for many others. Economists have forecasted that a ratified Korean-U.S. FTA could add an additional USD 10 billion in U.S. exports to Korea.

Korea also maintains a tariff quota system designed to stabilize domestic commodity markets. Customs duties can be adjusted every six months within the limit of the basic rate plus or minus 40 percent. On December 29, 2006, the Ministry of Finance and Economy (MOFE) released the 2007 list of products subject to adjustment tariffs and quota rates. Sixteen agricultural and fishery products were subject to adjustment tariffs (a decrease of two -- bananas and frozen skate -- compared to 2006) and 30 are subject to quota tariffs (a decrease of 59 compared to 2006).

In accordance with the Information Technology Agreement (ITA), Korea reduced tariffs on 203 types of telecommunication and information related equipment to zero. Korea is also a party to the Government/Authorities on the Manufacture of Semiconductors (GAMS) Agreement to Eliminate Tariffs on Multi-Chip Integrated Circuits, and was expected to reduce its tariffs on this type of semiconductor to zero during 2006.

Korea has a flat 10 percent Value Added Tax on all imports and domestically manufactured goods. A special excise tax of 10-20 percent is also levied on the import of certain luxury items and durable consumer goods. Tariffs and taxes must be paid in Korean Won within 15 days after goods have cleared customs.

Tariffs for agricultural products vary considerably from product to product. In general, tariff rates are higher for products that are produced domestically. Processed products generally have lower tariffs. Exporters can contact the U.S. Agricultural Trade Office for specific information on tariff rates.

Customs Valuation

Most duties are assessed on an ad valorem basis. Specific rates apply to some goods, while both ad valorem and specific rates apply to a few others. The dutiable value of imported goods is the cost, insurance, and freight (C.I.F.) price at the time of import declaration.

Import duties are not assessed on capital goods and raw materials imported in connection with foreign investment projects. Authorization to import on a duty-free basis is usually accompanied by the Ministry of Finance and Economy's approval of a foreign investment project.

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Korea continues a process of economic liberalization and deregulation, but the Korean government (ROKG) has yet to adopt a fully laissez-faire policy where the economy and trade are concerned. The U.S. Embassy, in cooperation with the American Chamber of Commerce (AmCham) in Korea, works actively to lift or loosen the many regulatory trade restrictions that currently exist.

Overcoming regulatory barriers to trade is also a major focus of the negotiated KORUS-FTA. Transparency, due process, public comment and appeals procedures, and timely and written administrative procedures are among the topics that were addressed and agreed to and affect a number of the sector-specific elements to the agreement.

Information on specific trade barriers in Korea, including agricultural products such as the beef ban and restrictions on rice imports, is available in the 2007 National Trade Estimate Report on Foreign Trade Barriers for Korea.

Import Requirements and Documentation

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For companies exporting to the Republic of Korea the following shipping documents are required to clear Korean Customs:

COMMERCIAL INVOICE: An original invoice and two copies must be presented with the shipping documents and must include total value, unit value, quantity, marks product description and shipping from/to information.

CERTIFICATE OF ORIGIN: A Certificate of Origin in duplicate may be required. Exporters are encouraged to discuss shipping document requirements with their respective importer.

Once the respective parties ratify the Korean-U.S. Free Trade Agreement, certificates of origin would be the basis for confirming and extending preferential duties (duty free) to U.S. exporters as noted in the KORUS-FTA.

PACKING LISTS: Two copies are required.

BILL OF LADING: A clean bill of lading identifying the name of the shipper, the name and address of the consignee, the name of the port of destination, description of the cargo, a price list of freight and insurance charges (CIF), and attestation of carrier's acceptance on board for the goods is sufficient. There are no regulations pertaining to the form of the bill of lading nor the number of bills of lading required to clear customs. As bills of lading are for ocean and overland cargos, the airway bill of lading replaces the bill of lading for air cargo shipments.

MARITIME INSURANCE: Under the Incoterms (shipping terms) agreed to by the parties in a transaction, if the exporter is responsible for insurance, a marine insurance policy or insurance certificate is required.

SPECIAL DOCUMENTATION

SANITARY/PHYTOSANITARY CERTIFICATES: Sanitary and phytosanitary certificates are required for shipments of live animals, animal products, plants, and plant products. The United States Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) issues inspection certificates indicating conformity of health and sanitary standards of the destination country. The Animal and Plant Health Inspection Service is located at the U.S. Department of Agriculture, 4700 River Road, Riverdale, MD 20737. Veterinary product exporters can also call Tel: (301) 734-7885; Fax: (301) 734-6402 or E-mail vs_content_management@aphis.usda.gov. For plant products exports can contact APHIS at Tel: (301) 734-8537; Fax: (301) 734-5786 or E-mail: APHIS.Web@aphis.usda.gov.

WHOLESOMENESS CERTIFICATES: Meat and poultry products require a certificate of wholesomeness. Information can be received from the United States Food and Inspection Service, Landmark Center, Suite 300, 1299 Farnam St., Omaha, NB 68102. Exporters can call Tel: (402) 221-7400; Fax: (402) 221-7438 or E-mail TechCenter@fsis.usda.gov.

AGRICULTURE EXPORT CERTIFICATES: Meat (beef and beef products), poultry and poultry meat, pork meat, sheep and goat meat, requires certification. Exporters can receive additional information from the Agricultural Marketing Service, Audit, Review and Compliance Branch, 100 Riverside Parkway, Suite 135 Fredericksburg, VA 22406, Tel: (540) 361-7640.

The Government of Korea suspended the import of all U.S.-origin beef on 5 October 2007 awaiting negotiation and agreement of a new import health protocol between the two nations. The resumption of U.S.-origin beef imports to Korea could occur within first quarter of 2008.

An overview of Korean import requirements for food is contained in the Exporter Guide. Additional detailed information about import requirements and documentation needs for agricultural and food products (including biotechnology products) are included in the Food and Agricultural Import Regulations and Standards (FAIRS) report for Korea. The Korean Food and Drug Administration (KFDA) provides information on maximum residue levels and import procedures on the KFDA website. Additional detail on the maximum residue limits allowed by Korean food authorities and reports on import requirements for organic products are also available on the FAS website. Exporters of organic products should also review the FAS report on Korean regulatory requirements for transgenic content in organic processed food products.

Current information on which U.S. livestock and poultry products are eligible for export to the Korean market can be found on the website of the Food Safety and Inspection Service of the U.S. Department of Agriculture. This website also provides guidance on the documents Korea requires for livestock product shipments destined for Korea.

Free Sales Certificates: Imports of pharmaceuticals, medical devices and cosmetics require a free sale certificate issued by an authority of the exporting country reflecting that the product in question are in free circulation in the country of export

All commodities, except rice, can be freely imported, subject to special registrations and import approvals for categories like pharmaceuticals medical devices, and cosmetics. The Government of Korea has stipulated requirements and procedures for importing certain products including registration, standards and safety and efficacy testing to ensure the protection of public health and sanitation, national security, safety, and the environment. Typically, health or safety related products, such as pharmaceuticals and medicines, require additional testing or certification by recommended organizations before clearing customs. Medical device and pharmaceutical exporters must have their products registered with the Korea Food and Drug Administration and can only be imported by licensed importers that have been certified by a KFDA authorized body. In addition, special items defined by the Ministry of Commerce, Industry and Energy (MOCIE) in its Annual Trade Plan require approval by the Minister of MOCIE. In most cases, the supplier's qualified local agent completes the registration process.

U.S. Export Controls

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The Department of Commerce, Bureau of Industry and Security (BIS) develops, implements, and interprets U.S. export control policy for dual-use commodities, software, and technology. Dual-use items subject to BIS regulatory jurisdiction have predominantly commercial uses, but may also have military applications. For basic information on U.S. export controls, please visit the following website, http://www.bis.doc.gov/licensing/exportingbasics.htm. For information on export controls administered by other U.S. Government agencies, please visit http://www.bis.doc.gov/About/reslinks.htm.

Most goods exported to Korea are not subject to U.S. export controls, however, please visit the above listed websites for detailed information on U.S. export controls.

Temporary Entry

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Korea has three kinds of bonded areas where goods can temporarily enter Korea for storage, manufacture, processing, sale, construction, or exhibit without going through customs clearance.

The three types of bonded areas are: 1) designated bonded areas (designated storage sites and customs inspection sites); 2) licensed bonded areas (bonded warehouses, bonded exhibition sites, bonded construction sites, and bonded sales shops); and, 3) integrated bonded areas. The period for which goods may be stored in a licensed bonded warehouse is one year and can be extended for another year. Duties are payable only when goods are cleared through customs. Storage fees are relatively high, and the availability of a bonded warehouse to maintain inventories is limited. The storage period does not apply to the storage of live animals or plants, perishable merchandise, or other commodities that may cause damage to other merchandise or to the warehouse. The Collector of Customs bears no responsibility for goods while they are stored in customs facilities.

Integrated bonded areas have no time limit for storage. Hence, storage, manufacturing, processing, building, sales and exhibition can be comprehensively carried out. U.S. exporters can store shipped goods and still maintain title until they are cleared through customs. Korea's customs laws specify that any person who wishes to establish a bonded warehouse shall obtain a license from the director of each Customs Zone. Applications must include the name of the bonded warehouse, location, structure, numbers and sizes of buildings, storage capacity and types of products to be stored. In addition, articles of incorporation and corporate registration must be submitted, when applicable.

Goods entering Korea for exhibition purposes must be stored in a bonded area. For example, the Korea Exhibition Center (COEX) is a bonded area. Exhibition goods will be held without charge at COEX during the exhibition period, after which they must be either: 1) reshipped directly out of Korea without payment of duty; 2) presented at Customs for payment of regular duty on value declared at time of entry; or, 3) transferred to the Seoul Customs house bonded storage area. Goods stored in a bonded warehouse may incur storage costs, customs brokerage charges, local transportation costs and moving equipment fees.

Korea Customs have simplified clearance procedures for goods with particular purposes (samples, goods for warranty and non-warranty repair).

The ATA Carnet is an international Customs document that a traveler may use to temporarily import certain goods into a country without having to engage in the Customs formalities usually required for the importation of goods, and without having to pay duty or value-added taxes on the goods. Korea allows for the temporary importation of commercial samples, professional equipment and certain advertising materials by a nonresident individual. For more information about carnet in Korea, please click here.
By definition a temporary import is for six months or less, therefore, a Carnet is valid for a maximum of six months in Korea.

For more detailed information about guidelines for temporary entry of items into Korea, please visit the Korea Customs website.

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Country of origin labeling is required for commercial shipments entering Korea. The Korean Customs Service (KCS) publishes a list of country of origin labeling requirements by Harmonized System Code number. Please visit Labeling and Marking for more detailed information about labeling requirements.

Korea has specific labeling and market requirements for organic and functional food as well as food produced through biotechnology. Details regarding these and other general labeling and market requirements can be found on the Foreign Agricultural Service website in the Food and Agricultural Import Regulations and Standards (FAIRS) report for Korea.

Prohibited and Restricted Imports Return to top

Please visit the Department of Commerce, Bureau of Industry and Security for detailed information about export controls to the Republic of Korea. The Korean Customs also maintains a list of prohibited imports to the Republic of Korea.

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Korea maintains an import declaration system that allows for the immediate release of goods upon acceptance of an import declaration filed without defect. With the exception of high-risk items related to public health and sanitation, national security, and the environment, which often require additional documentation and technical tests, goods imported by companies with no record of trade law violations are released upon the acceptance of the import declaration without customs inspection. The Korean Customs Service's (KCS) Electronic Data Interchange (EDI) system for paperless import clearance allows importers to make an import declaration by computer without visiting the customs house.

Import declarations may be filed at the Customs House before a vessel enters a port or before the goods are unloaded into bonded areas. In both cases, goods are released directly from the port without being stored in a bonded area if the import declaration is accepted.

Exporters can file an export notice to Korean Customs by computer based shipping documents at the time of export clearance. All commodities can be freely exported unless they are included on the negative list.

With rare exceptions, Korean Customs allows free customs entry of goods brought into Korea that are hand-carried by foreign businesspersons (such as laptop personal computers) for use during their stay in Korea. In such cases, Korean Customs makes a note on the traveler's passport and then requires the traveler to take the item(s) out of Korea when departing.

To view customs regulations, go to the website below.

Korea Customs Service
Tel. 82-42-472-2196
Fax. 82-42-481-7969
Email: kcstcd@customs.go.kr
Website: www.customs.go.kr/eng/

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The Korean Government adopted the ISO 9000 system (modified as the KSA 9000) as the official standard system in April 1992 and published related regulations in September 1993. In 1997, Korean companies also adopted the ISO 14000 environment management system. However, there are still concerns over Korea's implementation of the commitments that were made when the GATT Agreement on Technical Barriers to Trade (the "Standards Code") was signed in 1980. Korea seems to develop standards that effectively block imported goods by affecting only imported goods or which are not applied in an equal manner to domestic products. In addition, the Korean government occasionally issues new regulations without adequate public consultation procedures. The absence of a satisfactory comment period and adequate time for industries to adjust can be a significant barrier to trade. Finally, implementation periods sometimes do not give foreign exporters sufficient time to comply, which often leads to unnecessary and costly interruptions in trade. In light of the fact that Korean firms consider compliance with the ISO 9000 necessary to compete in international markets, the Korean government has indicated that it will address such problems and reduce barriers.

The Korean Agency for Technology and Standards (KATS), under the Ministry of Commerce, Industry and Energy (MOCIE), is undertaking a program to make Korean standards consistent with international standards. Stronger recognition of this necessity has developed from the need to protect global consumers (i.e. electrical products safety), to facilitate trade for small and medium sized Korean companies, to increase overall efficiency of production as well as limit unnecessary barriers to legitimate trade. The Korean Industrial Standardization Act requires 60 days' notice before implementing new standards. Whenever there is a change in standards, the government is required to notify the WTO's Committee on Technical Barriers to Trade (TBT).

The Korean Food and Drug Administration (KFDA) generally accepts internationally accepted standards, or equivalents, of advanced countries or consensus standards. Included in this list of standards recognized by Korea are those of the International Standard Organizations (ISO), the American Society for Testing and Materials (ASTM), the International Electro-technical Commission (IEC), the U.S. Pharmacopoeia (USP), the British Pharmacopoeia (BP), the European Pharmacopoeia (EP), and the Japanese Pharmacopoeia (JP).

Korea has reduced some barriers in the automotive industry. The Korean government has promised not only to lower Korea's WTO tariffs on motor vehicles and actively participate in future multilateral tariff reduction negotiations, but also to change standards and certification procedures that increase costs and cause delays to market entry due to excessive documentation and testing. In October 20, 1998, the U.S. and Korea signed an MOU for improved market access for U.S. and other foreign motor vehicles into the Korean market.

Although the MOU was targeted at ongoing government efforts to improve public perceptions of imports, mainly by preventing discriminatory procedures and promoting benefits of open trade and competition, the most useful outcome of the MOU was the self-certification system granted to U.S. manufacturers in 2002. This agreement made Korea the third country, after the U.S. and Canada, to introduce a self-certification system in the industry.

Despite selected improvements, however, some Korean standards are still inconsistent with international standards, and a lack of clear standards guidelines persists. KFDA has established standards for only 76 of its 950 device classifications. These few standards serve as the lower limit criteria for product approval. With many KFDA standards yet to be established, a product may meet other non-KFDA standards but not fit into KFDA's existing standards, causing delays in some cases.

U.S. companies have often faced difficulties due to rejection of equivalent standards in Korea, particularly for food, nutritional products, cosmetics, pharmaceuticals, medical devices and electronic products.

Details regarding standards and import regulations for food and agricultural products can be found in on Foreign Agricultural Service website in the Food and Agricultural Import Regulations and Standards (FAIRS) report for Korea.

For standards contact information, go to the link below:
http://www.buyusa.gov/korea/en/standardscontacts.html

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The Korean Agency for Technology and Standards (KATS), under the Ministry of Commerce, Industry and Energy (MOCIE), develops standards for capital goods, including construction materials and consumer products, as well as products for logistics operations. The agency consults with other private organizations to develop standards and certifications.

Every five years, KATS reviews KS to validate, revise or withdraw standards depending on the needs of industry. KATS may make adjustments in KS between five-year intervals to ensure conformance with international standards or to facilitate the development of new technologies. KS are then established by consensus with the Korean Industrial Standards Council (KISC). KISC members are technical experts from industry, academia, R&D organizations and consumer groups. They review and decide on KS standards as well as on Korea's acceptance of international standards. KISC currently consists of 39 division councils of 300 members, supported by 594 technical committees with 6,808 members.

The Korean Food and Drug Administration (KFDA), similar to its counterpart in the U.S., sets standards for research, new product evaluation, test method development, product monitoring for food and drugs as well as radiation safety regulations that apply to all radiation-emitting devices distributed within Korea.

The Telecommunications Technology Association (TTA) covers telecommunications, information technology, radio communications and broadcasting. The Association establishes industry standards and has been instrumental in creating the current Korean Information and Communication Standards. With the opening of an IT Testing Laboratory in

December 2001, TTA has been able to provide a one-stop service center; from the establishment of IT standards to the testing and certification for IT standards products. TTA also collaborates with international and national standards organizations such as ITU, ETSI, T1, TTC, ARIB, TSACC, ACIF and etc.

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KATS establishes guidelines for government and private sector institutes to perform reliability assessment and certification. It also performs market surveillance on KS-marked products and penalizes products that do not meet KS requirements.

Korea has a fairly extensive regulatory system for biotechnology products. The Ministry of Agriculture & Forestry (MAF) regulates labeling of unprocessed biotech products and conducts environmental risk assessments (ERAs) of biotech crops. The Korea Food & Drug Administration (KFDA) regulates food safety approval of biotech crops and labeling of processed food products containing biotech components

The National Plant Quarantine Service conducts post-entry quarantine inspection of plants and plant products. It was designated as an independent agency in 2001 and is affiliated with the Ministry of Agriculture and Forestry

Ministry of Health and Welfare (MOHW) regulates products are required to have locally based (pharmacists/chemists/Korean pharmaceutical trade associations/etc.) tests on every batch of all shipments. Products tested outside Korea are frequently not accepted.

Products requiring Electro Magnetic Interference (EMI) product testing must be done by government-approved testing companies. Modems and monitors require homologation approval even if already approved in the country of origin.

The Korea Toy Industry Cooperative (KTIC) Inspection Team tests toys with moving parts or motion capability. Currently it is the only officially designated toy-testing agency. The Cooperative was incorporated in 1967 as a national nonprofit organization for toy manufacturers and traders.

The Korea Environment & Merchandise Testing Institute (KEMTI) (formerly the Korea Merchandise Testing & Research Institute – KOMTRI) has been accredited under the Korea Laboratory Accreditation Scheme (KOLAS) for tests covering hardline products, footwear, textiles, packaging and testing equipment. This qualification is granted only to laboratories that meet certain quality and technical laboratory requirements based on ISO 17025.

The Korea Testing & Research Institute for Chemical Industry (KOTRIC), Quality Assurance Department, tests batteries, tires and safety glasses. It was accredited under the Korea Laboratory Accreditation Scheme in 1994. KOTRIC is an affiliated institute under the Ministry of Commerce, Industry and Energy.

The Korea Machinery-Meter and Petrochemical Testing & Research Institute (MPI), Quality Assurance Team, tests motor brake fluids, engine coolants and washer fluids. It was designated as a KOLAS institute in 1994.

The Fabric Inspection Testing Institute (FITI) - Testing & Research Institute tests fabrics. It was designated as a reliability assessment organization by MOCIE in 2001 and is accredited by KOLAS for a range of tests.

In terms of new legislation, the Ministry of Commerce, Industry and Energy's Living Modified Organism (LMO) Act is Korea's legislative response to the implementation of the Cartagena Bio-Safety Protocol (BSP). Environmental risk assessments for biotechnology crops will become mandatory. Several applications have already been submitted, however, none have yet been completed. The assessments will be similar to food safety assessments for biotechnology crops for human consumption. The U.S. Government is urging Korea to adopt a sufficient grace period and minimize restrictive measures to avoid major trade interruptions. Additionally, Korea is required to notify the World Trade Organization (WTO) of any new revised requirements.

Korea is a signatory to the GATT Standards Agreement. As such, Korea must apply open procedures for the adoption of standards, announces recommended standards, provide sufficient information on proposed standards or alterations in standards, and to allow sufficient time for countries and other stakeholders to comment on proposed standards implementation.

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Generally, private industrial organizations oversee import certification procedures. KATS, however, also issues certification marks for new technologies and recognizes quality products manufactured by Korean companies mainly to promote exports. The Korea Standards Quality Certification Association offers consulting advice and preparation for ISO9000, ISO14000, KS, TS16949, HACCP, UL, and CE.

In the spring of 2001, Korea began requiring ruminant exports to be certified as BSE-free by the U.S. government. As this requirement proved highly restrictive, it was resolved for pharmaceutical products. After an extensive legal review, the Korean government decided to accept BSE-free certifications by governments, manufacturers, and relevant suppliers. After the discovery of a BSE-infected cow in the U.S. in December 2003, however, imports of ruminant products and poultry meal from countries with a history of BSE cases are highly restricted.

A number of Korea's sanitary and phytosanitary certification requirements continue to limit market access for a variety of imported products. However, progress was made in market access for cherries. In April 2003, after lengthy consultations, the Ministry of Agriculture and Forestry (MAF) ruled that all varieties of cherries would be permitted to enter Korea under certain conditions. Yet market access for in-shell walnuts is still hampered by a requirement for pre-export clearance by MAF inspectors in the country of origin.

Mutual Recognition Agreements (MRAs) with U.S. Organizations

Korea is a member of the ANSI – RAB (American National Standards Institute-Registrar Accreditation Board) Multilateral Recognition Agreement.

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Established in December 1992, the Korea Laboratory Accreditation Scheme (KOLAS) is the government accreditation body under the KATS Department of Technology and Standards Planning. KOLAS signed the Asia-Pacific Laboratory Accreditation Cooperation Multilateral Recognition Agreement (MRA) for testing in 1998 and for calibration in 2001. In 2000, KOLAS also signed the International Laboratory Accreditation Cooperation Multilateral Recognition Agreement on testing and calibration. As a result, tests that are done in laboratories of ILAC member countries are mutually recognized by 44 members economies.

There are local testing laboratories authorized to certify firms under the ISO 9000 system. As Korea has joined the International Accreditation Forum-Multilateral Recognition Arrangement (IAF-MLA), local certification for the ISO 9000 system is recognized in the 27 member countries of the IAF-MLA.

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Revised or new standards or technical regulations are published by the Korean Agency for Technology and Standards (KATS) and made available on their website at http://www.ats.go.kr/fm_03/pyojun.asp. The articles, more frequently than not, are published only in Korean. All proposed or newly revised/established technical regulations are consolidated at this site.

Proposed revisions or establishment of regulations in Korean are made to the Director of Technical Regulations via the website at www.ats.go.kr. A public meeting consisting of law-makers as well as relevant private/public industry organizations is held to comment on proposed regulations. Contact the U.S. Embassy, Commercial Section for assistance with revised or new standards.

Labeling and Marking Return to top

Country of origin labeling is required for commercial shipments entering Korea. The Korean Customs Service (KCS) publishes a list of the country of origin labeling requirements by Harmonized System Code number. Click "Country of Origin" for more information on markings.

Further labeling and marking requirements for specific products, such as pharmaceutical and food products, are covered by specific regulations from the Korean Government agencies responsible for these items. Korean language labels, except for country of origin markings that must be shown at the time of customs clearance, can be attached locally on products in the bonded area either before or after clearance. The Korea Food & Drug Administration (KFDA) is responsible for setting and enforcing Korean labels for food products other than livestock products. The MAF regulates livestock products. The MAF also has its own set of standards for markings for the country of origin labeling of agricultural products. Local importers usually print Korean language labels when imported quantities are not large and consult with KCS about where they can be attached to the product.

For pharmaceuticals, all imported containers and packages must be conspicuously marked to show:
1) country of origin and manufacturer's and importer's names and addresses;
2) name of product;
3) date of production and batch number;
4) names and weights of ingredients;

5) quantity;
6) number of units;
7) storage method;
8) distribution validity date;
9) instructions for use;
10) import license number;
11) effectiveness;
12) import price and suggested retail price.

Details regarding labeling and marking regulations for food and agricultural products can be found on Foreign Agricultural Service website in the Food and Agricultural Import Regulations and Standards (FAIRS) report for Korea.

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Korean Agency for Technology and Standards (KATS)
www.ats.go.kr

Published technical regulations and standards
http://www.ats.go.kr/fm_03/pyojun.asp

Korean Food and Drug Administration (KFDA
http://www.kfda.go.kr/

Korean Laboratory Accreditation Scheme (KOLAS)
www.kolas.go.kr

Local Standards Contacts

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Trade Agreements Return to top

The Republic of Korea is a member of the Asia-Pacific Economic Cooperation (APEC) forum. One goal of APEC, as outlined in its 1994 declaration, is to establish a Free Trade Area among its member countries by the year 2020. Substantive principles of the APEC forum include investment liberalization, tariff reduction, deregulation, government procurement, and strengthening IPR protection. Korea was the host country for APEC in 2005.

Korea has ratified Free Trade Agreements (FTAs) with Chile and Singapore. It has signed, but not yet ratified, an FTA with the United States.

Korea has signed a framework agreement with the Association of South East Asian Nations (ASEAN) that has led to an FTA in goods by the end of 2006 and other areas by the end of 2008. Korea is in the midst of an FTA negotiations with the EU.

The Republic of Korea is a member of the World Trade Organization (WTO) and has signed subsidiary agreements including TRIPs (Trade Related Aspects of Intellectual Property) and the Government Procurement Agreement. Korea has been a member of the Organization for Economic Cooperation and Development (OECD) since December 1996.

Web Resources

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U.S. Agricultural Trade Office- Seoul
www.atoseoul.com

U.S. Department of Agriculture
www.usda.gov
USDA Agriculture Exporters Guide
http://www.fas.usda.gov/gainfiles/200708/146291900.pdf

USDA Animal Plant and Health Inspection Service (APHIS)
www.aphis.usda.gov

USDA Food and Agricultural Import Regulations and Standards
http://www.fas.usda.gov/gainfiles/200708/146291900.pdf

USDA Food Safety and Inspection Service
http://www.fsis.usda.gov/Regulations_&_Policies/Republic_of_Korea_Requirements/index.asp

Foreign Agricultural Service (FAS), U.S. Department of Agriculture (Attaché reports)
www.fas.usda.gov

American Chamber of Commerce Korea
http://www.amchamkorea.org/about/about.jsp

U.S. Department of Commerce, Commercial Service Korea
www.buyusa.gov/korea

Department of Commerce, Bureau of Industry and Security
http://bxa.fedworld.gov/

Korean Agency for Technology and Standards (KATS)
http://www.ats.go.kr/

Published technical regulations and standards
http://www.ats.go.kr/fm_03/pyojun.asp

Korea Customs Service
http://www.customs.go.kr/eng/

Korean Food and Drug Administration (KFDA)
http://www.kfda.go.kr/

Korean Laboratory Accreditation Scheme (KOLAS) www.kolas.go.kr

Ministry of Commerce, Industry, and Energy
http://english.mocie.go.kr/index.jsp

National Trade Estimate
http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file340_10959.pdf

Telecommunications Technology Association (TTA)
www.tta.or.kr

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Chapter 6: Investment Climate

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Overview

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In the aftermath of the 1997-98 Asian financial crisis, Korea made rapid progress in reforming its financial institutions and capital markets. The Korean government also took steps to tighten competition policy and enacted measures to enhance foreign investment incentives, and to allow non-Koreans to own land and real property. In the aftermath of the financial crisis, the Korean government sold its interest in a number of large, high-profile companies to foreign investors, and many officials and Koreans in general began to see more foreign investment as something positive, even necessary, for the nation. These changes helped make the Korean economy more attractive to outside investors, and led to a brief surge of foreign investment. The post-crisis changes also helped the country start to shed its reputation as a difficult environment for foreign capital. Foreign direct investment in Korea totaled a respectable $11.6 billion in 2005, slightly lower than the prior year's total. Service industries accounted for roughly three-quarters of that amount, as opportunities in those sectors showed the greatest promise.

Despite these improvements, the environment for foreign direct investment (FDI) in Korea is still hampered by significant challenges. Some Koreans still resent foreign control of Korean companies, and 2005 saw an up-tick in public and media expressions of anti-foreign investment sentiment, perhaps due to relatively slow growth in employment and the Korean economy in general. Responding to public sentiment, some Korean government regulators in 2005 seemed to devote a disproportionate amount of their energies specifically toward U.S. and other foreign investors -- while seeking "credit" from the public by trumpeting their actions in the media. The highest levels of the Korean government, however, remain committed to maintaining a welcoming environment for foreign investors, following the principle of the "level playing field," and many issues involving foreign investors have eventually found their way to resolution.

The Korean regulatory environment poses a significant challenge for both foreign and domestic investors. Laws and regulations are often framed in general terms and are subject to differing interpretations by competing government ministries. Mergers and acquisitions, meanwhile, are sometimes hindered by insufficient transparency in corporate governance and the still-dominant position of Korea's "*chaebol*" conglomerates in the domestic economy. The Korean government has initiated a program of corporate restructuring which aims to make the business activities of Korean companies, including the *chaebol*, more transparent and more accountable to shareholders. Reform measures, combined with market realities, have encouraged some *chaebol* to sell off some of their constituent companies and have gradually weakened *chaebol* dominance in the economy at large.

Although Korea boasts a hard-working, educated and highly productive workforce, foreign investors cite volatility in labor-management relations and Korea's inflexible labor laws as another set of key problems that hamper direct investment. Korea loses proportionally more workdays to strikes than any other OECD country. Although the rate of unionization is not especially high, unions, kept down during decades of authoritarian rule, are now more forceful and often make high wage and benefit demands. Korea's rigid labor laws make it difficult to dismiss workers and to hire new staff. A lack of pension mobility in the private sector is also a problem, as is a weak social safety net for unemployed workers. Korean management, meanwhile, often takes a confrontational approach.

While important steps have been taken to improve the protection of intellectual property rights (IPR) in Korea, the protection of copyrighted material, particularly as produced by the entertainment industry, remains an area of concern to the United States. Korea remains on the U.S. Trade Representative's "Special 301 Watch List" following its removal from the "Priority Watch List" in April 2005. Foreign investors also remain very concerned about problems involving trademark and patent violations of manufactured goods, including the reluctance of the Patent Court to provide injunctive relief to protect the intellectual property of patent-holders.

Korea's President Roh Moo-hyun, who entered office in 2003, hopes to make Korea a financial and logistics "hub" to promote long-lasting regional peace and strengthen Korea's economic competitiveness, particularly within the Northeast Asian region. A government review of regulations governing the financial services sector, which would further augment Korea's "hub" dreams, is ongoing. The Korean government has created special economic zones near the ports of Busan, Gwangyang and the Incheon International Airport. The Korean government has also enhanced regional cooperation with its neighbors in hopes that multinational corporations might set up regional headquarters in Korea.

The United States retains the largest single-country share of foreign direct investment (FDI) in Korea, totaling $34.9 billion or about 30.3% of Korea's total stock of FDI since the 1960's. The EU (25 countries) has invested $35.4 billion (30.7% of the total) followed by Japan with $17.4 billion (15.1%). Overall, FDI decreased 9.6% year on year in 2005, to $11.6 billion on a filing basis. The financial, telecom and other service sectors are expected to absorb the most FDI in Korea in the near future, largely through mergers and acquisitions (M&A), in line with global trends.

Foreign portfolio investment into Korea continued at a substantial pace in 2005, due in large part to ongoing government liberalization measures. Aggregate foreign investment ceilings at the Korean Stock Exchange (KSE) were abolished in 1998, and by the end of 2005 foreign shareholders owned 39.9% of KSE stocks, and 13.5% of the tech-heavy KOSDAQ. These amounts were down somewhat from peak levels in late 2004 and early 2005.

Openness to Foreign Investment Return to top

The Korean government's attitude toward foreign direct investment is generally positive and most senior policy makers realize the value of FDI. Since the 1997-98 Asian Financial Crisis, a Korean government strategy to pursue reforms, most notably in the financial sector, has advanced the idea that foreign investment is positive for the country. As a result, Korea has become more attractive to outside investors and has begun to shed its long-standing reputation as a difficult environment for foreign capital. Despite these improvements and attitude changes, however, FDI in Korea is still hampered by excessive regulation, insufficient regulatory transparency, high labor costs and an inflexible labor system, underdeveloped corporate governance, lingering economic domination by the country's remaining conglomerates "*chaebol*" and a need for better protection of intellectual property rights.

A sluggish domestic economy, which only began to recover in 2005 has also somewhat dampened the Korean public's positive attitude toward foreign investment. Public pronouncements on the part of some policy makers reacting negatively to an increase in the market share of FDI in the financial sector and other parts of the economy have also had a negative effect. Reacting to significant foreign participation in the banking sector and in foreign portfolio investment in the Korean stock exchange, activists on the fringes of the labor union movement have formed an organization (SpecWatch Korea) to "monitor" such investments. Political figures are sensitive to this possible antagonistic change in public opinion against "too much" foreign investment.

Korea's Foreign Investment Promotion Act (FIPA) went into effect in late 1998. The FIPA (and related regulations) categorizes business activities as either open, conditionally or partly restricted, or closed to foreign investment. The FIPA considerably reduced the number of restricted sectors, although restrictions remain on 29 industrial sectors, two of which are entirely closed to foreign investment. The Korean government reviews restricted sectors from time to time for possible further openings. According to the Ministry of Commerce, Industry, and Energy (MOCIE), the number of industrial sectors open to foreign investors is well above the OECD average.

FIPA highlights included:

- Simplified procedures, including those for FDI notification and registration;

- Expanded tax incentives for high-technology FDI;

- Reduced rental fees and lengthened lease durations for government land (including local government land);

- Increased central government support for local FDI incentives;

- Establishment of a one-stop Investment Promotion Center (IPC) within the Korea Trade Promotion Corporation to assist foreign investors in dealing with the bureaucracy (since renamed "Invest Korea"); and

- Establishment of an Ombudsman office within the IPC to assist foreign investors.

Following is a list of Restricted Sectors for Foreign Investment (as of March 14, 2004) (Figures in parentheses denote the Korean Industrial Classification Code):

Completely Closed

- Radio broadcasting (87211)
- Television broadcasting (87212)

Restricted Sectors (partly closed)

- Growing of cereal crops and other food crops (01110)
- Farming of beef cattle (01212)
- Inshore fishing (05112)
- Coastal fishing (05113)
- Publishing of newspapers (22121)
- Publishing of magazines and periodicals (22122)
- Processing of nuclear fuel (23300)
- Electric power generation (40110)
- Transmission of electricity (40121)
- Other transmission/distribution of electricity (40122)
- Wholesale of meat (51312)
- Coastal water passenger transport (61121)
- Coastal water freight transport (61122)
- Scheduled air transport (62100)
- Non-scheduled air transport (62200)
- Leased line services (64211)
- Wired telephone and other telecommunications (64219)
- Mobile telephone services (64221)
- Cellular telephone services (64229)
- Other telecommunications (64299)
- Domestic commercial banking (65121)
- Investment trust companies (65931)
- Cable networks (87221)
- Cable and other program distribution (87222)
- Satellite broadcasting (87223)
- News agency activities (88100)
- Radioactive waste disposal (90230)

In categories open to investment, foreign exchange banks must be notified in advance of applications for foreign investment. (All Korean banks are permitted to deal in foreign exchange, including branches of foreign banks.) In effect, these notifications are pro-forma, and approval can be processed within three hours. Applications may be denied only on specific grounds, including national security, public order and morals, international security obligations, and health and environmental concerns, but it is rare for these grounds to be invoked. Exceptions to the advance notification approval system exist for project categories subject to joint-venture requirements and certain projects in the distribution sector.

Relevant ministries must still approve investments in conditionally or partly restricted sectors. Most applications are processed within five days; cases that require consultation with more than one ministry can take up to 25 days or longer. The Government's procurement law no longer favors domestic suppliers over foreigners, but some implementation problems remain. Korea changed its procurement law effective in 1997, to comply with its accession to the WTO Government Procurement Agreement.

Restrictions on foreign ownership of public corporations remain, though ownership limit levels have been raised. Currently, foreign ownership is limited for government-controlled utilities. Foreign ownership in Korean telecommunications companies is limited to 49%. The Korean government intends to privatize many of the remaining state-owned corporations.

The Ministry of Finance and Economy (MOFE) administers tax and other incentives to stimulate advanced technology transfer and investment in high-technology services. There are three types of special areas for foreign investment including Foreign Economic Zones, Foreign Investment Zones and Tariff Free Zones, where favorable tax incentives and other support for investors are available (see related section below.)

A Korean government initiative to encourage research and development (R&D) in strategic industries -- the New Growth-Driving Forces (NGF) program -- wound down in 2004. In its place the Korean government has increased its R&D budget to local areas from 27% to 32% to support its 21st Century Frontier R&D Project, designed to raise Korean technology to the level of the G-8 countries. Focusing on information technology, biotechnology, nanotechnology and new materials, the Korean government launched development programs in 20 new strategic areas at the end of 2003, at a total cost of $3.5 billion. Much Korean government-funded R&D taps the expertise of foreign partners.

In 2005, Texas Instruments opened a R&D center in Seoul and several other U.S. firms have expressed an interest in the dynamic and fast-growing Korean information technology sector. In financial services, Standard Chartered Bank's acquisition of Korea First Bank for $3.3 billion was the largest single investment in 2005. Prudential and online merchant e-Bay, meanwhile, announced plans to relocate their Asia headquarters to Seoul, and logistics firms such as DHL opened regional Korean distribution centers.

Conversion and Transfer Policies Return to top

The Korean government has substantially removed restrictions on financial transfers into and out of Korea. Prior to 1999, the Foreign Exchange Control Act and associated regulations strictly regulated foreign exchange transactions. The Korean government subsequently liberalized transactions in medium-and long-term overseas borrowings, purchase and sale of local real estate, and trading in over-the-counter (OTC) stocks and bonds.

In 1999, the Foreign Exchange Transaction Act (FETA) fully liberalized all current-account transactions by business firms and banks, and pared down a formerly long list of restricted transactions to five items, most of which cover foreign exchange transactions by individuals. A second-stage liberalization dismantled most of the remaining restrictions in 2001. Only transactions that could harm international peace and public order, such as money laundering and gambling, remain controlled. Three specific types of transactions were not liberalized:

1) Non-residents are not permitted to buy won-denominated hedge funds, including forward currency contracts;

2) The Financial Supervisory Commission will not permit foreign currency borrowing by "non-viable" domestic firms; and

3) The Korean government will monitor and ensure that Koreans firms that have extended credit to foreign borrowers collect their debts. The Korean government has retained the authority to re-impose restrictions in the case of severe economic or financial emergency.

Capital account liberalization under the Foreign Exchange Transaction Act has also been extensive. All capital-account transactions are permitted unless specifically prohibited. In addition, 72 of the 91 transactions specified by the OECD code of liberalization of capital movements now are permitted. Non-residents may open deposit accounts in domestic currency (won) with maturities of more than one year and may engage in offshore transactions and issue won-denominated securities abroad.

The right to remit profits is granted at the time of original investment approval. Banks control the now pro- forma approval process for FETA-defined open sectors. For conditionally or partially restricted investments (as defined by the FETA), approval for both the investment and remittance rests with the relevant ministry.

When foreign investment royalties or other payments are proposed as part of a technology licensing agreement, the agreement and the projected stream of royalties must be approved either by a bank or the Ministry of Finance and Economy (MOFE.) Again, approval is virtually automatic. An investor wishing to enact a remittance must present an audited financial statement to a bank to substantiate the payment. To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean appraisal board also must be presented. Foreign companies seeking to remit funds from investments in restricted sectors must first seek ministerial and bank approval, after demonstrating the legal source of the funds and proving that relevant taxes have been paid.

Expropriation and Compensation

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Korea follows generally accepted principles of international law with respect to expropriation. The law protects foreign-invested enterprise property from expropriation or requisition. If private property is expropriated, it can only be taken for a public purpose, and only in a non-discriminatory manner. Property owners are entitled to prompt compensation at fair market value. The U.S. Embassy in Seoul is not aware of any cases of uncompensated expropriation of property owned by American citizens.

Dispute Resolution Return to top

Serious investment disputes involving foreigners are the exception rather than the rule in Korea. The exceptions are cases involving intellectual property rights protection. There exists a body of Korean law governing commercial activities and bankruptcies that constitutes the means to enforce property and contractual rights, with monetary judgments usually levied in the domestic currency. Foreign court judgments are not enforceable in Korea.

Although commercial disputes can be adjudicated in a civil court, foreign businesses often feel that this is not a practical means to resolve disputes. Proceedings are conducted in Korean, often without adequate translation. Korean law prohibits foreign lawyers who have not passed the Korean Bar from representing clients in Korean courts. Civil procedures common in the United States, such as pretrial discovery, do not exist in Korea. During litigation of a dispute, foreigners may be barred from leaving the country until a decision is reached. Legal proceedings are expensive and time-consuming and lawsuits often are contemplated only as a last resort, signaling the end of a business relationship.

Commercial disputes may also be taken to the Korean Commercial Arbitration Board (KCAB). The Korean Arbitration Act and its implementing rules outline the following steps in the arbitration process: 1) parties may request the KCAB to act as informal intermediary to a settlement; 2) if unsuccessful, either or both parties may request formal arbitration, in which case the KCAB appoints a mediator to conduct conciliatory talks for 30 days; and 3) if unsuccessful, an arbitration panel consisting of one or three arbitrators is assigned to decide the case. If one party is not resident in Korea, either may request an arbitrator from a neutral country.

When drafting contracts, it may be useful to provide for arbitration by a neutral body such as the International Commercial Arbitration Association (ICAA). U.S. companies may wish to seek local expert legal counsel when drawing up any type of contract with a Korean entity.

Korea is a member of the International Center for the Settlement of Investment Disputes (ICSID). It has also acceded to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). Korea is a member of the International Commercial Arbitration Association and the World Bank's Multilateral Investment Guarantee Agency (MIGA). It is important to keep in mind that Korean courts may ultimately be called upon to enforce an arbitrated settlement.

Performance Requirements and Incentives Return to top

South Korea does not maintain any measures notified to the World Trade Organization (WTO) as being inconsistent with TRIMs requirements, nor does the ROKG maintain any measures that are alleged to violate the WTO's TRIMs text. Korea ceased imposing performance requirements on new foreign investment in 1989 and eliminated all pre-existing performance requirements in 1992. The ROKG has no requirement that investors purchase from local sources or export a certain percentage of output. There is no ROKG requirement that Korean nationals must own shares in foreign investments or that technology be transferred on certain terms. The Korean government does not impose "offset" requirements on investors to invest in specific manufacturing, R&D or service facilities. There are also no government-imposed conditions on permission to invest.

The Korean government allows the following general incentives for foreign investors:

- Cash grants for the creation and expansion of workplaces for high-tech business plants and R&D research centers;
- Reduced rent for land and site preparation for foreign investors;
- Grants for establishment of convenience facilities for foreigners;
- Reduced rent for state or public property; and

Preferential financial support for investing in major infrastructure projects.

Right to Private Ownership and Establishment

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Korea fully recognizes rights of private ownership and has a well-developed body of laws governing the establishment of corporate and other business enterprises. Private entities may freely acquire and dispose of assets; however, the Fair Trade Act may limit cross-ownership of shares in two or more firms if the effect is to restrict competition in a particular industry.

Korea liberalized its property ownership law in 1998. The Alien Land Acquisition Act (as amended) grants even non-resident foreigners and foreign corporations the same rights as Koreans in purchasing and using land. Korea took further steps to liberalize its property ownership laws by implementing the Real Estate Investment Trust (REIT) Act in 2001, which supports sound indirect investments in real estate and restructuring of corporations. The REIT Act allows investors to invest funds through an asset management company, and in real property such as office buildings, business parks, shopping malls, hotels and serviced apartments.

Almost no restrictions remain on foreign ownership of stock in Korean firms. As of 2000, Korean law permits foreign direct investment through mergers and acquisitions with existing domestic firms, including hostile takeovers. Nonetheless, no hostile takeovers have occurred in Korea because of the lack of relevant implementation regulations for the Foreign Investment Promotion Act. In addition, the political environment for hostile takeovers remains unfriendly. In early 2005, the Ministry of Finance and Economy (MOFE) announced new stockholding disclosure rules aimed at further complicating any possible hostile takeover attempts. A prohibition on cross-ownership between companies was repealed in 1998.

Protection of Property Rights

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Although respect for basic property rights in Korea, including land use rights, is solid, and generally a matter of course, Korea has shortcomings in its protection of intellectual property rights (IPR). The problem is particularly serious in the area of protection of digital content -- where IPR protection is made more complicated by Korea's very high Internet access rate and degree of broadband connectivity. As a result of these shortcomings, Korea continues to be on the United States Trade Representative's Special 301 "Watch List." While Korea has made progress on tightening IPR enforcement in recent years, online music piracy causes serious economic damage to recording companies. Continued piracy of U.S. motion pictures in Korea has also resulted in revenue loss for U.S. and Korean copyright holders.

In June 2003, the Ministry of Justice issued a directive to prosecutors to pro-actively pursue IPR infringement violations. Since that time, Korean police and prosecutors have conducted more consistent raids against software end-users. In October 2003, the National Assembly granted policing authority to the Standing Inspection Team responsible for investigation of software piracy, which resulted in more frequent raids based on leads from the software industry.

Protection of digital content has suffered, however, due to some specific shortcomings in Korean law:

- *Insufficient Transmission Rights for Sound Recordings*: The U.S. Government has expressed concern that on-line piracy rates may continue to rise and damage the revenues of both domestic and foreign recording industries, and has urged Korea to introduce legislation that provides a full set of transmission rights for sound recording producers. Responding to concerns expressed by Korean and foreign music copyright holders, an amendment to the Copyright Act has been proposed that would give copyright holders, performers, and phonogram producers significantly enhanced rights to control the transmission of their phonograms. As of late 2005, that legislation remained pending at the National Assembly.

- *Copyright Act Shortcomings:* Revisions to the Copyright Act passed by the National Assembly in July 2000 and April 2003 included permission for enhanced technical protection measures (TPM's) and the introduction of a framework for a "notice and takedown system" to give an Internet service providers (ISP) a legal incentive to respond promptly to requests from right holders for removal of pirated content. However, in order to fully comply with the WIPO Copyright Treaty (WCT) ratified by Korea in 2004, further revisions to the Copyright Act are still needed. In particular, Korea remains in violation of its obligations under the Berne Convention's Article 18 and TRIPS Article 14.6 to provide full retroactive protection for pre-existing works and sound recordings. In 2005, National Assembly representatives proposed three additional bills to amend the Copyright Act including measures to limit public performances of copyrighted works, and elimination of the complaint requirement in limited cases. These measures were deliberated at the end of 2005. As of this report, these copyright amendments have not been passed.

- *Computer Program Protection Act Shortcomings:* In December 2002, the National Assembly revised the Computer Program Protection Act (CPPA) to provide for transmission rights, a critical part of effective copyright regimes in the digital age. The revision also requires Internet service providers (ISP's) to immediately stop infringing activity upon request of the copyright owner, for the purpose of revising or updating programs, or for encryption research. The CPPA should be further strengthened, however, to clarify that the right holder has the exclusive right to make copies, temporary or permanent, of a work or phonogram. Unlike the Copyright Act, the CPPA does have provisions on protection of technical protection measures used with computer programs, although several broadly worded exceptions still need to be narrowed.

In 2002, the National Assembly enacted the Publication and Printing Business Promotion Act, allowing the private sector to participate in enforcement activities against book piracy. In 2003, Korean authorities and the private sector began joint book piracy enforcement efforts, especially on and near university campuses. In 2004, the Ministry of Education sent a letter to Korean universities requesting them not to tolerate copyright infringement on their campuses.

Pirating of audio-visual materials in DVD format, illegally sold by street vendors, remains a serious problem in Korea. Despite active Korean National Police enforcement efforts, video-DVD pirates in Korea have developed increasingly sophisticated production facilities and distribution methods.

Korean patent law is fairly comprehensive, offering protection to most products and technologies. Still, despite legislative progress, deficiencies remain in the interpretation of claims and in the treatment of dominant and subservient patents. The Korean Intellectual Property Office (KIPO) strengthened restrictions on patent term extension for certain pharmaceutical, agrochemical and animal health products that are subject to lengthy clinical trials and domestic testing requirements, but problems still remain. Lack of coordination between Korean health and safety officials and IPR personnel sometimes results in market approval being granted for products that infringe on existing patents. Another significant problem is the reluctance of Korea's Patent Court to provide injunctive relief to stop patent infringers from manufacturing copycat products while patent infringement cases are being deliberated.

Korea's Trademark Act, amended in 1998 to prohibit the registration of trademarks without the authorization of foreign trademark holders, allows examiners to reject any registrations made in "bad faith." Despite this change, the complex legal procedures that U.S. and other companies must follow to seek cancellation proceedings act as a barrier to effective enforcement, by discouraging U.S. companies from pursuing legal remedies.

Concerning counterfeiting and trade secret protection, in revisions to the Copyright Act made in 2000, textile designs were afforded copyright protection as well as protection under Korean design law. But enforcement efforts are not consistent. The Korean Customs Service upgraded its computer system in 2003 in an effort to enhance border enforcement against the export of counterfeits.

Korean laws on unfair competition and trade secrets provide a level of protection in Korea, but are sometimes insufficient. For example, some U.S. manufacturers report government regulations that require submission of very detailed information of sensitive products as part of registration procedures. The Korean Food and Drug Administration (KFDA) revised the Pharmaceutical Affairs Act implementing regulations to stipulate that submitted data must be protected from authorized disclosure when the submitting party requests protection. In 2004, the Unfair Competition and Trade Secrets Act was amended, strengthening penalties for disclosing trade secrets.

An Internet Domain Name Dispute Resolution Committee was created in 2002 to arbitrate disputes and minimize court actions. To better protect trademarks unjustly used as a domain name, the Unfair Competition Prevention and Trade Secret Protection Act was amended in 2004 to include such an unjust registration of another person's trademark as a domain name as an unfair competitive act. In addition, the fraudulent manufacturing and sale of goods for which the trademark has not yet registered in Korea is also considered an unfair competitive act.

Corporate Governance and Investment Decision Making Return to top

Investors and financial markets remain wary of corporate governance in Korea despite significant improvements since the 1997-98 Asian financial crisis. Concerns about corporate governance mean Korean shares often trade at earnings below those of comparable companies elsewhere. Korean policy makers acknowledge that foreign investors often exact a "Korea Discount" when dealing with Korean companies or in making investment decisions. As the Chairman of the Korean Free Trade Commission (KFTC) has stated, "the main reasons for the Korea Discount are opaque accounting techniques, less respect for minority shareholders, insufficient openness and excessive control by controlling families."

Large gaps exist between the ownership and control of a significant number of firms in Korea, with many traditional "*chaebol*" conglomerates still being run by their founding families, despite the family's generally small ownership stakes. Korea's accounting reform plan and Code of Best Practices are admirable efforts, but more can be done in these areas as well. Increasing participation by foreign investors and stockholders, modernizing business-government relations, and infusing professionalism in the corporate culture could go a long way toward improving corporate governance.

Korea's development strategy in the latter part of the 20th Century, which transformed the country from one of the poorest nations in the world to a member of the OECD, created a number of structural legacies that increased the country's vulnerability during the 1997-1998 Asian financial crisis. At that time, Korea's generally weak corporate governance framework was compounded by a history of government-directed financing, creating significant "moral hazard" -- that is, the assumption that government would make good all losses and not permit large companies to fail. This allowed large segments of the corporate sector to become excessively leveraged, increasing vulnerability. Korea responded to the financial crisis by implementing a number of corporate reforms that improved accounting transparency, promoted corporate restructuring, and strengthened the nation's insolvency framework. Nonetheless, corporate governance reforms remain incomplete.

The Korea Fair Trade Commission aims to reduce the gap between ownership and control by encouraging the *chaebol* to improve internal checks and balances (for example, by adopting cumulative voting for the selection of independent directors). The KFTC has also urged the *chaebol* to adopt a vertical holding company structures so that all of a group's equity investments are held by one company (a common practice in other OECD countries). As an incentive for firms to pursue these two tracks, the Korean government has said that it would exempt complying firms from limits on their equity investments. Few *chaebol* have pursued either one of these tracks, however, in part because of stringent conditions regarding the creation of holding companies.

The Anti-Monopoly and Fair Trade Act has been repeatedly changed -- most recently in 2003 -- to address the issue of excessive *chaebol* control over affiliates. In the latest revision to the Act, the Korean government re-instituted restrictions on *chaebol* cross-ownership, including a ceiling on *chaebol* investments in affiliated firms equal to 25% of a *chaebol*'s net assets. Prior to that, Korea's top 30 *chaebol* committed to eliminating all intra-group payment guarantees by March 2001.

The practical impact of Korea's laws and policies regulating monopolistic practices and unfair competition, however, has been limited by the long-standing economic strength of the *chaebol*. Management control at the Korean *chaebol* continues to involve complicated webs of murky cross-shareholdings among *chaebol* affiliates, and many *chaebol* still conduct business based on family and personal connections. Vestigial *chaebol*-government relations can also sometimes influence the business-government dialogue, to the detriment of foreign and small and medium-sized enterprises (SME's). Thus, *chaebol* influence in the Korean economy causes some practical business problems for foreign investors. SME suppliers, for example, may be reluctant to deal with foreign firms for fear of jeopardizing a prized *chaebol* relationship. Obtaining access to credit may be complicated by the privileged relationships competing *chaebol* enjoy with local banks -- although this is mitigated by the fact that regulations limit a bank's exposure to any single *chaebol* group's companies to 25% of capital, and stipulate that 35% of all banks' lending must go to SME's.

There are several large Korean corporations that have transformed themselves into well-managed multinational corporations that have adopted "best practices" in corporate governance consistent with U.S. and international standards. Some of their "best practices" include more frequent board meetings covering real operational issues; boards with more independent board members and fewer or no founding family members; a nominating committee for the board; financial report certifications; and frequent and substantive outside audits.

Foreign ownership is also playing a significant role in promoting corporate governance reform in Korea. Korean firms with significant foreign investment, for example, are generally understood to be more reluctant to participate in government-sponsored bailouts of troubled firms, impacting the evolution of Korean financial markets. As foreign investors now own about 60% of the shares in some of Korea's top companies and nearly 40% of stock listed on Korea's main stock exchange, the rights of minority and non-Korean stockholders are becoming more clearly expressed. To some extent, this trend has provoked a backlash against foreign investment on the part of some *chaebol* and other conservative forces in Korean society. This has led the Korean government to consider some ill-advised policies, such as limiting the number of foreign directors allowed on corporate boards or requiring Korean nationality to sit on a bank's board of directors. But few such policies have actually been implemented thus far, and many corporate leaders in Korea are starting to understand that -- as Korean empirical research has demonstrated -- companies that have high disparities between ownership and control also have lower profitability, higher leverage ratios and lower price-to-earnings ratios.

The Korean government is currently implementing an accounting reform plan, taken largely from the U.S. Sarbanes-Oxley Act, aimed at making Korean accounting standards consistent with rigorous international standards. Key elements of the reform plan encompass measures to increase the responsibility and accountability of the corporate board, management, and the audit committee. In parallel, a committee of Korean private sector experts has established a Code of Best Practices in response to a tasking by the Ministry of Finance and Economy. The voluntary recommendations included in this Code are in line with OECD principles, and the Korea Stock Exchange (KSE) has reinforced the importance of the Code by requiring that companies listed on the KSE provide information to investors about the extent to which they conform to the Code. Following are some of the key recommendations contained in the Code of Best Practices:

- Easing of ownership thresholds to allow small shareholders greater rights to inspect company books;

- Having outside or independent directors make up at least half (rather than a quarter) of the board members of listed companies;

- Establishing a nominating committee to choose board members, with at least half of the committee consisting of outside directors;

- Ensuring that outside directors are truly independent, with no interests in the company, the management, or the controlling shareholder;

- Having the board of directors meet at least once every three months; and

- Requiring that companies have audit committees consisting of at least three directors, of which two-thirds are outside directors.

Korea's Securities Class Action Act came into force in 2005. Minority shareholders are now able to file class action suits against companies with assets totaling more than 2 trillion won for manipulation of share prices, false disclosure of information, and accounting malpractice. This system is also expected to have a significant long-term impact in improving corporate governance practices in Korea, although the system was not yet directly utilized in 2005.

Transparency of Regulatory System

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The Korean regulatory environment, difficult for domestic companies, poses an even greater challenge for foreign firms. Laws and regulations are often framed in general terms and are subject to differing interpretations by government officials, who rotate frequently. While the regulatory process has improved since the Asian financial crisis, it is often not transparent and frequent informal discussions with the bureaucracy may be necessary. Mid-level bureaucrats often rely on unpublished office guidelines and unwritten administrative advice for direction.

Throughout 2005, the U.S. Embassy in Seoul noticed a disturbing trend of some regulators and economic enforcement officials devoting a large amount of their energies specifically toward U.S. and other foreign investors, and seeking "credit" from the public by trumpeting their actions in the media. The matter of foreign equity funds having made "too much money" buying (actually rescuing) distressed Korean commercial banks in the aftermath of the 1997-98 financial crisis received much debate. Although senior policy makers publicly announced that Korea had no intention of discriminating against foreign capital and foreign investors, public sentiment remained mixed.

During 2005, Korean tax audits focusing on foreign companies were sometimes carried out in an excessively aggressive manner and press leaks of such actions by the authorities were common. Such activity caught the notice of Korea's Deputy Prime Minister in charge of economic affairs, who publicly chided tax officials, urging them to exercise caution in releasing confidential information during ongoing tax audits.

Vestiges of Korea's former "industrial policy" approach to fostering the economy remain evident in the business environment despite the efforts of the Kim Dae-jung and Roh Moo-hyun Administrations to increase regulatory transparency. The Korean government bureaucracy still influences the decisions of businesses and investors through prescriptive regulations, policies favoring domestic industry, and even threats of retaliation. Investors, whether Korean or non-Korean, are often required to disclose proprietary information to government officials as part of the regulatory approval process. Some foreign investors complain that the proprietary nature of the trade information provided has not been respected and has been obtained by local competitors.

According to Korea's Administrative Procedures Act, proposed laws and regulations (Acts, Presidential Decrees or Ministerial Decrees) should be published and public comments solicited for 20 days prior to promulgation. In 2005 the Korean Government promulgated a recommendation that all ministries provide a longer (60 day) timeframe for public comment periods for regulations subject to the APA that are "economy-related," but there has been no evidence yet that this extended time frame is being followed. Draft bills are often available on the web sites of relevant ministries. Nonetheless, the rule-making process often remains non-transparent, particularly for foreigners. Proposed rules are not always published prior to promulgation, or are published with insufficient time to permit public comment and industry adjustment. For example, regulatory changes originating from legislation proposed by members of Korea's National Assembly are not subject to public comment periods. When notifications of proposed rules are made public, they usually appear in the Official Gazette, but not consistently, and only in the Korean language, meaning that much of the 20-day comment period can be exhausted translating complex documentation. After promulgation, rules are sometimes applied arbitrarily.

President Roh Moo-Hyun has made deregulation one of the key elements of his economic policy, and progress is gradually being achieved. The Korean government has made efforts to cut back on the number of regulations, and some important changes have been made. Officials have charged the Deregulation Taskforce Team, the Corporate Resolution Center and the standing Regulatory Reform Committee to focus on regulatory reform. In 2005, Korean officials began to work closely with U.S. government officials and the U.S. business community to consider recommendations to these bodies on which Korean regulations might be improved, or usefully eliminated or amended. Korean officials have also indicated that they are considering sweeping regulatory changes in the financial services sector in 2006.

Capital Markets and Portfolio Investment

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Financial sector reform has been a bright spot for the Korean government in the past 8-9 years and could provide a positive example for reform efforts in other sectors of the economy. Financial sector reforms have aimed to increase transparency and investor confidence, and generally purge the sector of moral hazard. Since 1997-98, the Korean government has recapitalized the banks and non-bank financial institutions; closed or merged weak financial institutions; resolved many non-performing assets; introduced internationally-accepted risk assessment methods and accounting standards for banks; forced depositors and investors to assume appropriate levels of risk; and taken steps to help end the policy-directed lending of the past. Weak supervision and poor lending practices in the Korean banking system helped cause and exacerbate the 1997-98 Asian financial crisis.

In the course of stabilizing Korea's banking sector during the financial crisis, the Korean government injected public funds, thereby acquiring *de facto* ownership of many of Korea's commercial banks -- although it publicly committed to refrain from interfering in bank lending and management decisions, except with regard to prudential supervision. In late 2002, the Korean government began its ambitious plan to re-privatize the banks under its control, with the program was initially scheduled to end by the first quarter of 2005. Much of this re-privatization has taken place, although the government continues to own the majority of shares in Woori Bank and minority shares in some other banks. Foreign banks are allowed to establish subsidiaries or direct branches. Further relaxation of regulations has widened foreigners' access to Korea's capital markets and permitted foreign financial firms to engage in non-hostile mergers and acquisitions of local financial institutions. Currently, foreign interests control three of Korea's eight major commercial banks: Citibank Korea (formerly KorAm Bank); Korea Exchange Bank and SC/Korea First Bank.

Korea routinely permits the repatriation of funds, but reserves the right to limit capital outflows in exceptional circumstances, such as situations when uncontrolled outflows might harm the balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of domestic financial markets. The Korean government did not impose such restrictions even during the height of the Asian financial crisis.

Foreign portfolio investors now enjoy good access to Korea's stock markets. Aggregate foreign investment ceilings in the Korean Stock Exchange (KSE) were abolished in 1998, and foreign investors owned 39.9% of KSE stocks and 13.5% of the KOSDAQ by the end of 2005. The market turnover rate was 151% of market capitalization in 2004. Retail investors are extremely active in the Korean stock markets. Some 60.5% of KSE and KOSDAQ retail trading is conducted online. Thus, a large majority of retail investors are day traders, implying a constant source of volatility for the markets. The Korean government permits stock purchases on margin, requiring that transactions be settled within three business days.

Portfolio investors have shown less appetite for the smaller, more volatile, technology-rich KOSDAQ or for Korean fixed-income investments. Since the 1999 collapse of the Daewoo Group in 1999, Korea's largest corporate bankruptcy, the country's bond market has been almost moribund, as sellers have far outnumbered buyers. The total assets of

Korea's commercial banks as of the end of September 2005 were 856 trillion won, or about $830 billion.

Short-term interest rates remain low, at around 4.1%, and inflation at 2.7% remained fairly low throughout 2005. Inflation for 2006 is expected to have been around 3.1%. The spread between short-term money (the overnight call rate) and long-term money (the benchmark 3-year corporate bond rate) fell from its 400-plus basis points high in 2000 to about 170-basis points in December 2005. The Bank of Korea (BOK) has maintained its target for the overnight call rate at the record-low level of 3.25% from November 2004 to September 2005, in consideration of sluggish domestic consumption and investment. But on October 11 and December 8, the BOK raised twice its target rate to 3.5% and 3.75%, respectively, considering consumption recovery and potential inflation pressure.

Labor Issues

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While Korea boasts a hard-working, educated and productive workforce, foreign investors cite volatile labor-management relations and Korea's inflexible labor laws as a primary investment impediment. According to a 2005 International Finance Corporation study, Korea ranked 105 out of 155 countries in labor flexibility. According to this study, hiring a worker costs about 17% of the worker's salary while firing a worker costs about 90 weeks of the worker's wages.

Korea loses proportionally more workdays to strikes than any other OECD country. In a hopeful sign, according to ROKG figures, the number of days lost to strikes declined from 1,158,628 in 2004 to 802,224 in 2005. Although, at around 11%, Korea's unionization rate is not especially high, unions are forceful in making high wage and benefit demands.

Korea's out-dated labor laws, designed decades ago with the intention of encouraging businesses to provide the social safety net the Korean government could not at that time afford, contribute to the rigidity of the system and make it difficult to dismiss workers and expensive to hire new staff. A lack of pension mobility in the private sector compounds the problem, as does general lack of confidence in the social safety net for unemployed workers. Korean management, meanwhile, often takes an old-fashioned, confrontational approach to labor relations.

The Korean labor market is increasingly a polarized one, with a core of regular workers enjoying a high level of employment protection, and rapid wage growth, supplemented by a large group of temporary (contract) workers whose numbers can be more easily adjusted in line with changing economic conditions. Korean and foreign employers cite the difficulty of reducing the number of regular workers and the expense of hiring new workers as reasons for hiring non-regular workers. Temporary workers are generally not union members and do not demand the higher wage increases expected by union members, so their wages better reflect the overall supply and demand conditions of Korea's labor market. Contract workers also most often do not receive fringe benefits, and can be terminated at the end of their contract without severance benefits -- compounding fearful attitudes among workers about the downsides of a flexible labor market. Many employers have sought to replace retiring regular workers with temporary ones. Temporary workers usually earn about 60% of what regular workers make for the same job. The National Statistics office believes 48.4% of Korean workers can be classified as "irregular," while the unions claim the real number may be as high as 60%.

The temporary worker phenomenon has a significant downside for management. Under Korea's labor law, if a temporary worker's contract is extended more than once, that worker may become a *de facto* permanent worker, protected by termination and other benefit provisions. As a result, many companies limit such contact extensions to just one time, and regularly turn over a significant part of their work force. This limits productivity growth for companies, as they must invest considerable time training new workers, and also impacts on the employment prospects of both new workers and those being let go. The Korean government, labor and management sector has yet to come to grips with this system. As a result, an entrenched unionized workforce continues to receive significant wages increases every year, while the remainder of the labor force sees fewer benefits and lower wages and wage growth, and dimmer prospects for the future.

The government in 2004 proposed legislation that would provide increased protections for temporary workers. According to one of its key provisions, a worker must be offered full employee status following three years of temporary work. However, the legislation has been unable to overcome fierce opposition from labor groups in the National Assembly who believe the reforms would further institutionalize the practice of hiring irregular workers. Umbrella labor groups have engaged in periodic, and sometimes violent, demonstrations against the law and have threatened a general strike should the legislation pass. The legislation remains in limbo as of January 2006.

The Roh Administration initially backed a Tripartite Commission (Labor, Employers and Government) approach to address these dysfunctions in the labor sector. In February 2004, the Commission crafted and agreed upon a "Social Pact on Job Creation" in order to promote employment security and reverse the trend of polarization. Despite high expectations, progress has been limited in implementing agreed measures. According to a Commission audit report to the National Assembly, only 6 out of the total of 49 measures were implemented by the first half of 2005. Many of these implemented measures focused on providing governmental benefits and financial assistance to businesses in hiring regular employees, and failed to address other areas of implementation stipulated in the Pact. In 2005, labor groups withdrew their participation from the Commission in protest of the government's temporary worker legislation.

In addition to temporary worker reforms, the government has indicated that implementing a "Roadmap for Industrial Relations Reform" would again be a top priority in 2006. The Roadmap, drafted by the government in 2003, contained a number of controversial reforms, including:

- Redefinition of the Basic Wage: Employers argued that the new Basic Wage would have raised expenses and impeded the creation of new jobs. The roadmap proposed that the new Basic Wage expand the definition of a basic wage to include all regular benefits such as periodic bonuses, supplementary allowances, raises, bonuses, overtime, night work, and work on holidays;

- No payments of wages to full time union officials: Current laws require that companies must pay 100% of the salaries of those whose full time job is to run the union at the company. Unions oppose the elimination of this provision;

- Prohibition of any given industry from having more than one union: Current laws state otherwise. Unions oppose this change;

- Replacement workers: Current labor law permits management to hire replacement workers only in the case of illegal strikes. The government would like to permit the hiring of replacement workers without condition in the case of "public corporations;"

- Mandatory maintenance of minimum level of essential public services during strikes: Supported by government but opposed by labor.

Korean and foreign experts agree that more attention should be paid to finding ways to promote labor mobility while stimulating the job market. According to the Ministry of Labor, 84.9% of all Korean wage and salary earners in 2004 were eligible for unemployment insurance, but only 54.2% were actually insured. Expanding coverage would be a step in the right direction. The government's plan to extend unemployment insurance to daily workers would also help. Exploring ways to better connect workers with employers could promote labor market efficiencies. Specifically, the Public Employment Service could seek greater cooperation with Korea's large and long-established network of the more than 5,000 private job placement agencies. Vocational training in Korea lags behind other countries with a similar level of development. Current programs could target their participants more carefully, keep the training programs small in scale, and ensure that the training results in a qualification that the market recognizes and values.

In the Korean system, government employees and schoolteachers can carry their pension rights when they quit one occupational plan and enter another. But there are no such linkages between the National Pension Scheme (NPS) and occupational pensions. The lack of portability puts such relatively mobile workers at a disadvantage and discourages movement between the public and private sectors. More broadly, Korea lacks a portable 401(K)-type system for corporate pensions. The establishment of such a system could assist in reducing disincentives to labor mobility, as well as support the development of financial markets.

In the area of labor-management relations, Korean labor groups are quick to escalate disputes and commonly resort to work slowdowns, abuse of leave, and disruption of business by holding rallies, wearing inappropriate clothing or displaying protest signs at the workplace. These tactics fall outside the scope of Korea's labor law and lead to confrontations with management and authorities. Sit-in strikes are common, and workers have occupied company offices and factories. The "5-day work week" system began gradual implementation in July 2004, and will become universal by 2008. As part of this implementation plan, the system was expanded to the public sector in July 2005.

While labor disputes are relatively more frequent at Korean companies than foreign-invested firms, union members at foreign-invested firms often make greater demands on management. Workers at foreign-owned firms perceive, most often incorrectly, that job stability and career prospects are relatively less attractive than at Korean firms, and as a result, labor is concerned about reductions-in-force and issues such as severance pay. At times, labor organizers portray disputes with a foreign employer as issues that offend Korean nationalism, a hot button for the Korean public psyche. For some companies such as banks, whose activities are considered to be essential public services, the government has the right, although seldom used, to order binding arbitration to solve labor disputes. The Korean government did step in to halt strikes by pilots at two Korean airlines in 2005, to end disruptions to the national economy caused by the reduction in service.

Korea joined the International Labor Organization (ILO) in December 1991. However, Korea still has not ratified the basic ILO conventions on Workers Rights (Convention 87 on freedom of association, Convention 98 on the right to organize and collective bargaining, and Convention 151 on public service employees' right to organize), and a number of international and domestic labor groups have filed complaints against the Korean government with the ILO's Committee on Freedom of Association.

In 1997, Korea amended its labor laws to permit more than one national labor federation. Korea now has two national federations, the Korean Confederation of Trade Unions and the Federation of Korean Trade Unions, along with some 1,600 distinct labor unions. Also, in 1997, the government repealed its ban on intervention by "third parties" in labor disputes, thus enabling labor unions to seek outside assistance and counsel.

Political Violence Return to top

Korea does not have a history of political violence directed against foreign investors. The Embassy is not aware of any politically motivated threats of damage to foreign-invested projects or foreign-related installations of any sort, nor of any incidents that might be interpreted as having targeted foreign investments. Labor violence unrelated to the issue of foreign ownership, however, has occurred in foreign-owned facilities in the past.

The Roo Moo-hyun Administration has continued South Korea's policy of economic cooperation with North Korea, even while maintaining a credible defense against any possible North Korean hostilities. This North-South engagement helps ease tensions caused by revelations in 2002 that North Korea had undertaken a second nuclear weapons program after it had agreed to freeze an earlier one under the U.S.-DPRK agreement signed in October 1994. Six party talks involving the two Koreas, the United States, China, Russia, and Japan on the elimination of the DPRK's nuclear programs continue -- but the DPRK has still not committed to dismantling its nuclear programs.

Corruption Return to top

Despite significant improvements in recent years, Korea's political structure still tolerates a degree of non-transparency in the formation of laws and regulations, which when combined with still-inadequate institutional "checks and balances" and a societal structure heavily based on personal ties can create opportunities and incentives for corruption and influence peddling.

The Korean government's hosting of the third Global Forum on Fighting Corruption in 2003 helped reinvigorate anti-corruption efforts, and the Roh Moo-hyun Administration began its tenure in 2003 with an ambitious agenda to reform political funding laws, decentralize government and compel greater corporate transparency and accountability through a mix of political pressure and new laws and regulations. The April 2004

National Assembly election, which took place under new, much stricter campaign finance laws, is widely considered to have been the cleanest ever, hopefully setting a new precedent whereby Korean corporations are no longer expected to bankroll political campaigns.

Bribing a Korean official is a criminal act. Penalties for bribery range from probation to life imprisonment, depending on the amount involved. Legislation has been approved bringing Korea into compliance with the OECD initiative against international bribery. The Supreme Prosecutor in each province is responsible for ferreting out corruption. Many business leaders and officials, including former ministers and former presidents, have been found guilty of corruption in recent years, sometimes for offenses committed years earlier. Still, few have paid heavy fines or served much time in prison. Amid spreading public sentiment denouncing bribery and corruption, particularly after the April 2000 general legislative election, civic groups have become very vocal and achieved considerable progress by identifying supposedly "corrupt" officials and working against their re-election. Public outrage helped propel Roh Moo-hyun, viewed by many as an untainted outsider, to the presidency in 2003.

The controversial Anti-Corruption Law passed by the National Assembly in 2002 is now in effect. Most notably, this law created the Korea Independent Commission Against Corruption (KICAC), which is semi-autonomous and empowered to investigate public complaints of corruption at every level of government. KICAC has established "reporting centers" in Korea's six largest cities and invites citizen complaints about their public officials via telephone, facsimile, email or Internet. Despite KICAC's quick start and seeming sincerity, many Koreans believe corruption is still rampant in Korea, and believe even the most aggressive independent body will have difficulty rooting it out.

The National Assembly passed an Anti-Money Laundering Bill in 2001. That legislation met the objectives of the Financial Action Task Force on Money Laundering's forty recommendations, and created a Financial Intelligence Unit (FIU) to trace suspect accounts and transactions and to facilitate international cooperation. The government has cooperated fully with U.S. and United Nations efforts to identify and shut down sources of terrorist financing.

Foreign-Trade Zones and Free Economic Zones

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The Korean government has established three "Free Economic Zones:" near Incheon International Airport outside Seoul, near the port in Busan and at Gwangyang. When fully developed, these areas are designed to provide a specially enhanced business environment for foreign-invested firms. Specific tax and tariff measures and other incentives such as eased restrictions on foreign investment in certain services (such as education and hospitals) are still being debated in the National Assembly. Major infrastructure enhancements at each site are already underway. The Ministry of Finance and Economy is pushing an agenda that would allow foreign investors to build hospitals and schools in the Zones, more freely than is the case nationwide.

There are also six Foreign-exclusive Industrial Complexes in Korea in different parts of the country, designed to provide inexpensive plant sites, with the national and local governments providing assistance for leasing or selling such sites at discounted rates. In addition, there are four "Free Trade Zones" in Iksan, Kunsan, Daebul and Masan where companies may pursue their business with government support, but without the usual legal requirements such as approval procedures for export and imports and customs duties. There are also seven Foreign Investment Zones designated by local governments to accommodate industrial sites for foreign investors. Special considerations for foreign investors vary among these options.

A good source of information on Korea's various free trade zone schemes is the government-run "Invest Korea," an inward investment promotion organization under the The Korea Trade and Investment Promotion Agency (KOTRA). It can be reached at:

Invest Korea, KOTRA Bldg. 300-9
Yomgok-dong, Seocho-gu, Seoul 137-170, Republic of Korea

The Korean government also continues to put significant effort into programs to enhance the quality of life in Korea for foreign investors and their families. A second major international school in Seoul will open its doors in 2007. Local governments have extensive programs aimed at assisting foreigners residing in Korea.

Bilateral Investment Agreements

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The United States has a bilateral Treaty of Friendship, Commerce, and Navigation with Korea, which contains general provisions pertaining to business relations and investment. During former Korean President Kim Dae-jung's visit to the United States in 1998, President Clinton and President Kim agreed to negotiate a Bilateral Investment Treaty (BIT) between the two nations. However, negotiations in 1998 and 1999 stalled after the two sides could not resolve differences on certain issues, including Korea's screen quota limiting the importation of foreign motion pictures.

OPIC and Other Investment Insurance Programs

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U.S. investments in Korea are eligible for insurance programs sponsored by the U.S. Overseas Private Investment Corporation (OPIC). OPIC has not, however, guaranteed any U.S. investments in Korea since June 1998, when OPIC reinstated coverage it had suspended in 1991 due to concerns about worker rights. Coverage issued prior to 1991 is still in force. Korea has been a member of the World Bank's (IBRD) Multilateral Investment Guarantee Agency (MIGA) since 1987.

Foreign Direct Investment Statistics

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($ Millions)	**Annual Flow**			**Cumulative Stock**
	2003	**2004**	**2005**	**2005**
Total Inward FDI	**6,469**	**12,786**	**11,562**	**115,438**
United States	1,242	4,718	2,690	34,936
EU	3,064	3,009	4,780	35,446
Japan	540	2,258	1,878	17,398
China	50	1,165	68	1,755
Other	1,553	1,636	2,146	25,903
Total Outward FDI	**5,911**	**8,062**	**7,905**	**86,931**
China	2,805	3,680	3,127	21,091

United States	780	1,421	1,103	18,254
EU	229	772	1,636	9,143
Japan	52	320	196	1,512
Other	2,045	1,869	1,843	36,931

Source: The Export-Import Bank of Korea and Ministry of Commerce, Industry and Energy

Note: This data is based on the notification of cases. 2005 outflow is data reported for the first 11 months of the year.

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Korean Commercial Arbitration Board
http://www.kcab.or.kr/

Korean Fair Trade Commission
http://www.ftc.go.kr/eng/about_kftc/about_us.php

Korean Intellectual Property Office
http://www.kipo.go.kr/kpo/user.tdf?a=user.eng.main.BoardApp

Korean Ministry of Commerce, Industry and Energy
http://english.mocie.go.kr/index.jsp

Korean Ministry of Finance and Economy
http://english.mofe.go.kr/

Korean Ministry of Foreign Affairs and Trade
http://www.mofat.go.kr/me/index.jsp

Korean Ministry of Labor
http://english.molab.go.kr/

Invest Korea
www.investkorea.org

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Chapter 7: Trade and Project Financing

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- How Does the Banking System Operate
- Foreign-Exchange Controls
- U.S. Banks and Local Correspondent Banks
- Project Financing
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How Do I Get Paid (Methods of Payment) Return to top

The Korean financial system is frequently hard-pressed to meet the demand for financing and capital. Foreign companies in a start-up operation with a Korean partner often invest financial resources for the joint venture, while their Korean partner makes an investment in kind, i.e., land or facilities, as the Korean share of equity. Joint-venture companies and foreign firms often work with branches of foreign banks for local-currency financing, although the branches of foreign banks control a small portion of Korean Won availability. Other potential sources of Korean Won financing include domestic nationwide commercial banks, regional banks, and specialized banks, including the Korea Development Bank, the National Agricultural Cooperative Federation, the Industrial Bank of Korea and the Korea Housing Bank.

There are three documentary practices for settling import payments: (1) sight and usance Letters of Credit, (2) Documents against Acceptance (D/A) and Documents against Payment (D/P); and, (3) Open Account Transactions. D/A and usance L/Cs are forms of extended credit in which the importer makes no payment for the goods until the date called for in the credit; however, the importer may clear the goods from customs prior to payment. D/P is similar to D/A except that the importer cannot clear the goods from customs prior to making payment. In some cases an importer can clear goods prior to payment under a sight L/C. L/C transactions generally follow standard international Uniform Customs and Practice (UCP) codes. Limitations on the use of deferred payment terms for imports, D/A and usance L/Cs have been abolished.

CS Korea recommends that U.S. companies consider dealing on a confirmed L/C credit basis with new and even familiar customers. A confirmed L/C through a U.S. bank is recommended because it prevents unwanted changes to the original L/C, and it places responsibility for collection on the banks rather than on the seller. This may cost a bit more, but may be well worth it.

To reduce risk of nonpayment, U.S. companies may contact credit rating agencies, which can provide fee-based corporate information to evaluate financial credibility of Korean companies. Dun & Bradstreet Korea, the Korea Investors Service, and the Korea Information Service are known to provide fee-based credit rating services in Korea. Cs Korea can also provide valuable information, including a company's credit standing, through its International Company Profile service. The Korean Commercial Arbitration Board (KCAB) and private collection agencies can provide arbitration and collection services. The KCAB is staffed with counselors who advise U.S. companies on contract guidelines.

The Commodity Credit Corporation (CCC), U.S. Department of Agriculture, administers export credit guarantee programs for commercial financing of U.S. agricultural exports to Korea. Under the GSM-102 Export Credit Guarantee Program for Korea, CCC underwrites credit extended by the private banking sector in the United States to approved Korean banks using dollar-denominated, irrevocable letters of credit to pay for food and agricultural products sold to Korean buyers.

How Does the Banking System Operate

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Korea's financial system consists of banking and non-bank financial institutions. The Financial Supervisory Commission (FSC) and the Financial Supervisory Service (FSS), its regulatory arm, are responsible for supervising and examining all banks, including specialized and government-owned banks, as well as securities and insurance companies. The FSC has played a key role in financial restructuring and has strengthened the regulatory and supervisory framework governing the entire financial sector. Oversight standards are improving but they will need more time to meet international standards. The Korean branches of international accounting firms generally perform audits. Although audit quality is improving, it is still far behind global standards. The government's unlimited guarantee for bank deposits is 50 million Korean Won (USD 55,000) per account.

Foreign-Exchange Controls

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Korea has liberalized foreign exchange controls in line with OECD benchmarks.

A foreign firm that invests under the terms of the Foreign Capital Promotion Act (FCPA) is permitted to remit a substantial portion of its profits, providing it submits an audited financial statement to its foreign exchange bank. To withdraw capital, a stock valuation report issued by a recognized securities company or the Korean Appraisal Board must also be presented. Foreign companies not investing under the FCPA must repatriate funds through authorized foreign exchange banks after obtaining government approval. Although Korea does not routinely limit the repatriation of funds, it reserves the right to do so in exceptional circumstances, such as in situations which may harm its international balance of payments, cause excessive fluctuations in interest or exchange rates, or threaten the stability of its domestic financial markets. To date, the Korean government has had no instances of limiting repatriation for these reasons, even during and after the 1997-98 financial crisis.

The Bank of Korea has detailed information about foreign-exchange control policies in Korea.

U.S. Banks and Local Correspondent Banks

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To view the list of major U.S. and Korean banks in Korea, go to the link below.
http://www.buyusa.gov/korea/en/bankcontacts.html

Project Financing

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Medium and short-term credit is available from Korean and foreign banks and through the issuance of debentures. Domestic companies generally have better access to local funding as well as informal and secondary financial markets charging higher interest rates. Debentures are a financing alternate, although slightly more expensive than bank financing. Long-term debt is available from the Korea Development Bank, but generally for high priority industries.

Several local financial service companies provide project financing for social infrastructure and private projects in Korea. Project financing was first introduced in Korea in 1995 for a highway construction project between Seoul and the Incheon International Airport. Currently, most of Korea's social overhead capital (SOC) projects are funded by project financing. Project financing has become a popular method of financing for private sector projects too, which include real estate development and buy-outs of financially troubled companies.

As a developed country, there are no multilateral development banks nor aid funded projects in Korea.

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Bank of Korea
http://www.bok.or.kr/index.jsp

Export Credit Guarantee Program
http://www.fas.usda.gov/excredits/exp-cred-guar-new.asp

Export- Import Bank of Korea
http://www.koreaexim.go.kr/en/

Export-Import Bank of the United States
http://www.exim.gov
- Country Limitation Schedule
http://www.exim.gov/tools/country/country_limits.html

Financial Supervisory Commission
www.fsc.go.kr/eng/index.asp

Financial Supervisory Service
http://www.fss.or.kr/

Korea Development Bank
http://www.kdb.co.kr/

List of major U.S. and Korean banks in Korea
http://www.buyusa.gov/korea/en/bankcontacts.html

OPIC
http://www.opic.gov

SBA's Office of International Trade
http://www.sba.gov/oit/

Export Credit Guarantee Program
http://www.fas.usda.gov/excredits/ecgp.asp

Trade and Development Agency
http://www.ustda.gov/

USDA Commodity Credit Corporation
http://www.fsa.usda.gov/ccc/default.htm

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Chapter 8: Business Travel

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At first glance, Korea appears to be "just like any other nation." Its capital city, Seoul, is a modern, thriving metropolis with all of the latest technology the world has to offer. All over Korea, you'll find first-class telecommunications, the requisite five-star hotels, Western restaurants, modern transport systems (including very efficient subway networks in Seoul and Busan), innovative architecture, and so forth. Nonetheless, it is still very Korean and it is imperative that any American doing business in Korea realizes that Seoul is not Los Angeles (even though the latter, in fact, has a sizeable Korean community). Every year Korea becomes more and more modern, but it is important to recognize that modern does not equal Western. Koreans will not expect you to be an expert on the nuances of their culture, but they will appreciate a show of interest in matters that are important to them. Koreans generally appreciate a foreigner’s effort in expressing a thank you (gam-sa-ham-ni-da) or a hello (an-yong-ha-say-yo) in the Korean language.

Though Koreans have transitioned greatly into Western society, the traditional ways of thinking in many areas are still practiced. Koreans have a great respect for the family and hierarchy. Extended families (i.e., parents living with middle-aged married “children” and their grandchildren) are still commonplace, although this is rapidly changing. Among the older generation, the father is the primary wage earner, while the mother stays at home. Due to changing social mores and economic pressures, the necessity for families to have double incomes is rapidly growing in Korea. Although fathers are the primary income earners, in the majority of cases, salaries are entrusted to their wives and most day-to-day consumption decisions are at the discretion of the female spouse. US companies may wish to take into consideration these traditional family roles when marketing to Korean consumers.

Even though there are incremental changes in Korean attitudes and women are making progress, women professionals at the highest levels are still very rare. In Korean companies, the majority of working women, many with top university degrees, are still relegated to secretarial jobs, accounting or educational work. Many qualified women welcome the opportunity to work as a professional with a foreign company whose attitudes toward gender equality and professional respect and responsibility prevail.

Koreans still have a great respect for anyone senior in age, and intuitively establish their hierarchical position relative to others based on age. Indeed, one of the fundamental principles of the Korean language is based on the plethora of verb endings, which indicate the level of respect accorded to another person. In addition, a man generally receives more respect in the business world than a woman, though foreign businesswomen (especially, non-Asian looking women) are accorded almost an equal amount of respect as foreign businessmen. Single women generally receive less -respect than married women whose ties to their husband oftentimes establish their position in society. The American businessperson, as a foreigner, is generally exempt from the above societal classification system, although one should be prepared to answer questions that Koreans may regard as common to establish societal hierarchy but which foreigners may regard as personal, such as questions about age and marital status.

Americans should be ready to mix business with social life as the Koreans base their business relationships on personal ones. The heavy drinking of the Korean alcohol, Soju, beer, scotch, or other liquor is commonplace in establishing a personal, business relationship. Also commonplace is the “no-rae-bang” where a group of businesspeople go to an establishment to drink and sing along to a video machine playing music. As most no-rae-bang machines come equipped with songs in English, a businessperson may want to be prepared to sing at least one song in order to gain social favor with their Korean counterpart. Although not as common as the no-rae-bang, businessmen should also be aware of “room salons” where Korean women serve food and drink to their patrons.

When doing business, Americans should be sensitive to Korea's historical relationship with Japan, which made a virtual colony of the Korean peninsula. Because of the Japanese colonial period, Koreans have an emotionally intense reaction at times to things Japanese, though there is an admiration for Japanese business acumen. A businessperson should show great respect towards Korean society. Any comparative mention of Japan versus Korea, where Japan has the upper edge may harm a business deal.

Korea still observes Confucian ethics based on strong ties to a group. Whereas an American may think in individual terms, (i.e., what is in my best interest?), a Korean frequently thinks in group terms, (i.e., what is in the best interests of the group and how can I help to maintain harmony within the group?) For this reason, the majority of Koreans are intensely patriotic, calling Korea by the term, “oo-ri-na-ra,” (“our” country). In order to close a deal when negotiating, the benefits for the group, whether for the company or country, should be emphasized.

For Koreans, relationships are all important. "Cold calls" don't work and introductions are crucial. Koreans want to do business with people with whom they have formed a personal connection or whereby a mutual intermediary has made an introduction. As alumni contacts are a major source of networking in Korea, a particularly well-connected Korean will have attended a prestigious Korean university such as Seoul National University, Yonsei University, Korea University or Ehwa Women’s University.

The exchange of business cards is very important and a means by which Koreans learn about the name, position and status of the other person. Koreans observe a very strict hierarchical code whereby Koreans will generally meet to discuss business with persons of the same, parallel rank. Businesspersons should always have their (preferably bilingual) business cards ready and should treat the exchange of a Korean counterpart's card with respect. (It is a sign of respect to receive and present items with both hands, followed in business etiquette by passing and receiving a card with the right hand. One should never give a card, or anything else for that matter, with the left hand as it shows disrespect). For historical reasons, Chinese characters, which Koreans can generally understand, are regarded as more sophisticated. As such, a business card written in Chinese characters can serve for a business trip to Korea, China, and Japan.

Negotiating style is particularly important. Koreans can prove subtle and effective negotiators, and a commitment to a rigid negotiating stance early on may work to the American's disadvantage. Your offer may include the best price, technology and profit potential but still be turned down because the Korean customer does not like your style.

An important point to keep in mind concerns the nature of reaching an agreement with a Korean firm. Westerners attach great importance to a written contract that specifies each detail of the business relationship. Koreans, on the other hand, value a contract as a loosely structured consensus statement that broadly defines what has been negotiated, but leaves sufficient room to permit flexibility and adjustment. The Korean Government has attempted to address this dual perception by formulating "model" contracts for licensing technology and other arrangements. Both parties must be assured that the obligations spelled out in a negotiated contract are fully understood.

Most Koreans have three names. These names usually follow the Chinese pattern of a surname followed by two given names. In a Korean household, all brothers and sisters have the same last name and a common given name; the only distinguishing mark is the remaining given name. In addressing Koreans, foreigners should observe the use of surnames (e.g., Mr. Kim; Ms. Lee), using formal titles if possible (e.g. Dr. Yoo; Director Song). The most common last names are Kim, Lee, and Park. In the use of formal titles as appropriate, one should always be familiar with the complete name, including the two given names, for identification purposes, as there may be several Mr. Park's or Dr. Lee's in the same company and even the same work space

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Go to link below for information on traveling to Korea.
http://travel.state.gov/travel/skorea.html

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For information about visas to Korea, please go to http://www.mofat.go.kr/me/me_a006/me_b025/me06_01.jsp.

U.S. Companies that require travel of foreign businesspersons to the United States should allow sufficient time for visa issuance if required. Visa applicants should go to the following links.

U.S. Embassy Seoul Consular Section Website: www.asktheconsul.org

State Department Visa Website: http://travel.state.gov/visa/index.html

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There are three types of public telephones; prepaid, credit card and coin phones. If you want to make a local call in the same city or province, simply dial the phone number with no area code. For international phone calls, press the red button and then dial 0072911 for AT&T, or 0072916 for Sprint. However, please note that it is often difficult to find a public pay phone because Korea has one of the highest penetration rates in the world for mobile phones. The most convenient way is to rent a mobile phone upon arriving at Incheon International Airport. You can either contact the numbers below for reservations or simply sign up for a rental phone at the rental desks at the airport.

SK Telecom: 82-32-743-4011/4042
KTF: 82-32-743-4018/4078
LG Telecom: 82-32-743-4001/4019

The mobile phone penetration rate in Korea is 78 percent, with nearly 38 million of Korea's 48 million population subscribing to three different local carriers, SK Telecom, KTF, and LG Telecom. Currently Korean mobile technology is currently based on Code Division Multiple Access (CDMA), which may not offer roaming capabilities for Global System for Mobile Communications (GSM) or Time Division Multiple Access (TDMA) based technologies. According to SK Telecom and KTF investment plans for 2006, WCDMA infrastructure will be deployed in major cities and may allow partial roaming services for overseas business travelers.

Korea ranks among the top countries in the world in terms of Internet usage and broadband penetration, primarily on xDSL or cable networks. KT and Hanaro Telecom are two major facility-based wireline telephone operators and broadband service providers. There are also many small-and-medium sized Internet service providers. Korea also boasts its unique 'PC Baang (room)' service that offers broadband access services outside homes with the latest computer systems, charging by the amount of time used. Major urban hotels are also fully equipped with broadband access services for hotel guests' computers. Several upscale hotels have established hotspot zones in their lobbies for wireless Internet access. Satellite Digital Multimedia Broadcasting (S-DMB) and Terrestrial DMB (T-DMB) services are now available through mobile operators and broadcasting companies respectively. DMB services allow users to watch digital TV programs on their DMB-ready mobile devices, including cell phones, PDAs, and Personal Multimedia Centers (PMCs).

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Flying time for direct flights from the U.S. to Korea ranges from 12-16 hours, depending on the point of departure. Flights with connections can take as long as 18 hours, door to door.

Incheon International Airport is the primary gateway for international travel to and from Korea. The new state-of-the–art airport is one of the most modern in East Asia. Incheon

Airport is currently only accessible by car or bus, however, construction of the Incheon International Airport Railroad (A'REX) is nearly complete. The first 37.6 km segment from Incheon Airport to Gimpo Airport opened in 2007. Service to and from Seoul Station is scheduled to begin in 2010. Airport buses and taxis are widely available, although availability may be limited late in the evening. Travel time to Incheon Airport from downtown Seoul typically takes about one-and-a-half hours. The only road to the new airport is a toll road, which charges 6,700 Korean Won (approximately USD 6) per passenger vehicle.

The cost of travel by taxi from downtown Seoul to Incheon Airport averages 60,000 ~ 80,000 Korean Won (approximately USD 70 ~ USD 90), although some taxis charge more. Some taxi drivers also charge higher fares to make up for revenue lost by having to drive back to Seoul without a passenger. If this happens, the traveler should contact the airport authority (032-741-2422) and provide the taxi's license plate number so the authorities can take action and have the driver banned from driving to the airport.

A less expensive option is the widely available airport bus to/ from major cities in Korea. City Coach and airport buses cost 8,000~13,000 Korean Won (approximately USD 9 ~ USD 14) and depart from various locations throughout Seoul about every 15 minutes. Korean Air offers an airport/hotel shuttle bus service (KAL LIMOUSINE), which costs 14,000 Korean Won (approximately USD 16). These buses have several different routes, so it is necessary to check the route prior to boarding. KAL airport limousine buses depart every 20 minutes from major hotels throughout the city. Even though these two bus services are substantially cheaper than taking a taxi to Incheon Airport, passengers must factor in extra time, given the additional stops to pick up passengers at the various hotels.

Seoul's public transportation system is very well organized. With nine subway lines and city buses that service the entire city, as well as a multitude of taxis, traffic is the only major obstacle to movement. The seemingly endless rush-hour traffic can be a major hindrance, so early preparation, as well as patience, is required. Fortunately, buses takes less travel time than taxis because of a bus-only lane traffic system. The Seoul Metropolitan Government maintains an English language interactive bus map that allows passengers to obtain bus route and schedule information based on point of origin and destination.

Public transportation is also recommended for travel throughout Korea. KTX provides high-speed transportation to major cities throughout Korea. There are also intercity urban railway networks connecting Seoul to the rest of the country. Travel by bus also provides a cost-effective way of navigating throughout Korea.

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Korean is the official and accepted business language. English is taught throughout primary and secondary school, and is spoken at some government agencies and companies that engage in international business.

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Go to the link below for more information on health issues:
http://www.cdc.gov/travel/eastasia.htm

Local Time, Business Hours, and Holidays

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Local Time Zone:
Korea is 13 hours ahead of Eastern Standard Time during daylight savings time, and 14 hours ahead of Eastern Standard Time at all other times. Korea does not subscribe to daylight savings time.

Business Hours:
Business hours are normally from 8:30am to 5:30pm Monday through Friday, and 8:30 am to 1:00 pm on Saturdays for some government agencies.

Holidays:
View link for holidays in Korea. (http://www.buyusa.gov/korea/en/holidays.html)

Temporary Entry of Materials and Personal Belongings

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Korea

Travelers are allowed to bring USD400 worth of goods into Korea duty/tax free. Goods bought overseas or bought duty/tax free before leaving Korea are included when determining your duty free allowance. Common examples of acceptable items include: cameras, electronic equipment, leather goods, perfume concentrate, jewelry, watches, sporting goods, new clothing, footwear, articles for personal hygiene/grooming, one liter of alcoholic liquor (including wine, beer or spirits) for travelers aged 20 years and over. The tobacco allowance is 200 cigarettes, 50 cigars and 250g of tobacco products, other than cigarettes, for travelers aged 19 years of age and over.

Personal goods that you have used may also be brought into Korea without payment of duty and tax (proof of the date of purchase may be required). Your clothing, toilet articles, personal jewelry (including watches) will be admitted free of duty and other taxes irrespective, if they accompany you or are sent separately, provided:
1) They are intended for your own personal use or wear; and
2) They are not intended for any other person or persons or as a gift, sale or exchange.

Commercial quantities of individual items are not permitted under the provisions of this concession since the term "personal effects" only covers used articles or those that a traveler may reasonably require for his or her personal use during a journey.

Members of the same family who are traveling together may combine their individual duty/tax free allowances.

Gifts (given to you or intended for others) are counted as part of the USD400 duty free allowance.

Non-residents must declare in writing to Korean Customs all foreign currency with a value in excess of USD 10,000 that they carry into or acquire in Korea. This rule is enforced. When buying Korean Won in Korea, be sure to keep the receipt(s) because re-exchange is allowed up to the amount specified in the receipts. Without receipts only USD 500 worth of Korean Won can be re-converted into USD.

Articles in Excess of The Duty Free Allowance

All goods and proof of purchase must be declared to the Korea Customs Service (KCS) for calculation of any duty and tax to be paid. Customs will collect customs duty, VAT (Value Added Taxes) and special consumption taxes on imported items. The KCS has adopted a Simplified Duty Rate that reflects all duties and taxes to facilitate customs procedures.

General Examples of Simplified Duty Rates

Total value of articles acquired or purchased abroad	***Less than USD 400, or personal belongings that have been used***	***More than USD 400 (above duty free allowance)***	***Liquor, Tobacco, etc.***
Customs duty and other taxes	None	20~55%	Individually taxed

It is important to note that there are different rates of duty and tax. When purchasing items, caution should be exercised to ensure that the imported items are not in excess of the duty/tax free allowance. For further information, contact Korean Customs or go to their website at www.customs.go.kr/eng/.

Calculation of Customs Duties And Payment Method

Customs duty and other taxes, where applicable, are levied on the transaction value of the goods, i.e., the price actually paid for them. Where there is no identifiable transaction cost (such as a gift), Customs will endeavor to have the goods valued independently. Payment will only be accepted in cash and in Korean Won. Passengers cannot pay Customs duties by credit card or any other means of payment.

Business Travelers

Business travelers carrying commercial goods or samples may need to obtain permits for their goods depending on the nature of the goods, regardless of value. Quarantine and wildlife regulations and other restrictions may also apply to certain goods. Laptop computers and other similar electronic equipment for personal/professional use may be brought in duty/tax free, provided Customs is satisfied that these items will be removed from Korea on departure.

Temporary Importation Of Commercial Goods

Carnets may be obtained for temporary duty/tax free entry of goods such as commercial samples, jewelry, goods for international exhibitions, equipment for sporting events, professional televisions and film equipment, etc. Contact your local International Chamber of Commerce for application details.

Carnets in the United States are issued by the United States Council for International Business and information can be found on the website: www.uscib.org. Application information can be found at: http://www.uscib.org/index.asp?documentID=859. The Republic of Korea holds a six month validity period for the Carnet.

For more information on importing goods, the International Cooperation Division of the Korean Customs Administration can provide assistance with general customs questions.

Korea Customs Service
Tel: (82)-2-3438-1114
Fax. (82)-2-3438-1665.
www.customs.go.kr/eng/

Returning to the U.S.

Returning U.S. residents can bring duty-free articles totaling USD 400 when the articles are for personal use. After the USD 400 exemption, the next USD 1,000 worth of personal or gift items are taxed at a flat rate of 10 percent. Beyond USD 1,400, various duty rates, mostly 20-30 percent, apply according to the item. Both residents and non-residents are limited to one carton of cigarettes, 100 cigars and one liter of alcoholic beverages or two ounces of perfume for duty-free import. The duty-free limit is USD 50 for bona fide gifts mailed to the United States. Every mail shipment must contain a written declaration.

Non U.S. citizen visitors to the United States are allowed to bring in duty-free gifts with a value of up to USD100. For travelers within this limit, no written declaration is required. Additional gifts and other items that will remain in the United States are taxed at a rate of 10 percent up to USD 1,000, and at variable rates thereafter.

Foreign-made personal articles are dutiable each time they are brought into the United States, unless one can prove prior possession. Articles bought in "duty free" shops in foreign countries are subject to U.S. customs duty. Articles purchased in U.S. "duty free" shops are also subject to U.S. duties if they are brought back into the United States.

Americans visiting Korea should be aware of possible trademark and copyright violations when purchasing articles in Korea. Makes such as Coach, Reebok, Gucci, Polo, Rolex, Disney, Chanel, Warner Brothers and computer software are often counterfeit. Due to the high potential for counterfeiting, items bearing the above-named trademarks (and several others) can only be legally mailed or carried into the United States, if they are the authentic articles. By attempting to carry counterfeit goods through U.S. Customs, one runs the risk of having them confiscated. Possession of significant amounts of counterfeit goods can lead to criminal prosecution. Questions regarding the import of counterfeit goods into the U.S. should be directed to the U.S. Customs office at the Embassy in Seoul at 82-2-397-4644. The U.S. Customs website is www.cbp.gov.

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Health Issues
http://www.cdc.gov/travel/eastasia.htm

Holidays in Korea
http://www.buyusa.gov/korea/en/holidays.html

Incheon International Airport
http://www.airport.or.kr/eng/airport/

Information about Visas to Korea
http://www.mofat.go.kr/me/me_a006/me_b025/me06_01.jsp

Korean Embassy and Consulates in the U.S
http://www.koreaembassyusa.org

KTX
http://ktx.korail.go.kr/eng/

State Department Visa Website
http://travel.state.gov/travel/tips/brochures/brochures_1229.html

State Department Travel Advisory on Korea
http://travel.state.gov/travel/skorea.html

U.S. Customs
http://www.cbp.gov

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Chapter 9: Contacts, Market Research, and Trade Events

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Go to the link below for useful contacts in Korea and the U.S.:
http://www.buyusa.gov/korea/en/usandcountrycontacts.html

Market Research Return to top

To view market research reports produced by the U.S. Commercial Service please go to the following website: http://www.export.gov/marketresearch.html and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

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Please click on the link below for information on upcoming trade events.
http://www.export.gov/tradeevents.html

http://www.buyusa.gov/korea/en/cskoreaupcomingevents.html

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

For more information on the services the U.S. Commercial Service in Korea offers U.S. businesses, please click on the link below.

http://www.buyusa.gov/korea/en/ourservices.html

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